

# WAL MART STORES INC

## FORM 10-K (Annual Report)

Filed 4/9/2004 For Period Ending 1/31/2004

Address	702 SOUTHWEST 8TH ST BENTONVILLE, Arkansas 72716
Telephone	501-273-4000
CIK	0000104169
Industry	Retail (Department & Discount)
Sector	Services
Fiscal Year	01/31

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

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**FORM 10-K**

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☒ **Annual report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934**  
**for the fiscal year ended January 31, 2004,**

or

☐ **Transition report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934**  
**Commission file number 1-6991.**

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**WAL-MART STORES, INC.**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**71-0415188**  
(IRS Employer  
Identification No.)

**702 S.W. 8th Street**  
**Bentonville, Arkansas**  
(Address of principal executive offices)

**72716**  
(Zip Code)

**Registrant's telephone number, including area code: (479) 273-4000**

**Securities registered pursuant to Section 12(b) of the Act:**

Title of each class	Name of each exchange on which registered
<b>Common Stock, par value \$.10 per share</b>	<b>New York Stock Exchange Pacific Stock Exchange</b>

**Securities registered pursuant to Section 12(g) of the Act: None**

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for at least the past 90 days. Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ☒ No ☐

As of July 31, 2003, the aggregate market value of the voting common stock of the registrant held by non-affiliates of the registrant, based on the closing price of those shares on the New York Stock Exchange on July 31, 2003, was \$147,165,337,887. For the purposes of this disclosure only, the registrant has assumed that its directors, executive officers and beneficial owners of 5% or more of the registrant's common stock are the affiliates of the registrant.

The registrant had 4,296,710,566 shares of common stock outstanding as of February 29, 2004.

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## **DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's Annual Report to Shareholders for the fiscal year ended January 31, 2004, are incorporated by reference into Parts I and II of this Form 10-K.

Portions of the registrant's definitive Proxy Statement for the Annual Meeting of Shareholders to be held June 4, 2004, are incorporated by reference into Parts II and III of this Form 10-K.

## **FORWARD-LOOKING STATEMENTS OR INFORMATION**

This Form 10-K, the other reports, statements, and information that we have previously filed or that we may subsequently file with the Securities and Exchange Commission and public announcements that we have previously made or may subsequently make include, may include, incorporate by reference or may incorporate by reference certain statements that may be deemed to be "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. The forward-looking statements included or incorporated by reference in this Form 10-K and those reports, statements, information and announcements address activities, events or developments that Wal-Mart Stores, Inc. (together with its subsidiaries hereinafter referred to as "we," "Wal-Mart" or the "Company") expects or anticipates will or may occur in the future, including:

- future capital expenditures, including the amount and nature of those expenditures;
- opening of additional stores and conversion of Discount Stores into Supercenters;
- anticipated levels of change in comparative store sales from one period to another period;
- expansion and other development trends of industry segments in which we and our subsidiaries are active;
- our business strategy;
- our financing strategy;
- expansion and growth of our business;
- changes in our operations, including the mix of products sold; and
- other similar matters.

Although we believe the expectations expressed in the forward-looking statements included in this Form 10-K and those reports, statements, information and announcements are based on reasonable assumptions within the bounds of our knowledge of our business, a number of factors could cause actual results to differ materially from those expressed in any forward-looking statements, whether oral or written, made by us or on our behalf. Many of these factors have previously been identified in filings or statements made by us or on our behalf.

Our business operations are subject to factors outside our control. Any one, or a combination, of these factors could materially affect our financial performance, business strategy, plans, goals and objectives. These factors include:

- the costs of goods;
- the cost of electricity and other energy requirements;
- the cost of healthcare;
- competitive pressures;
- inflation;
- consumer debt levels;
- currency exchange fluctuations;
- the cost of motor fuel;

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- trade restrictions;
  - changes in tariff and freight rates;
  - unemployment levels;
  - interest rate fluctuations; and
  - other capital market, economic and geo-political conditions.

Forward-looking statements that we make or that are made by others on our behalf are based on a knowledge of our business and the environment in which we operate, but because of the factors listed above, actual results may differ from those in the forward-looking statements. Consequently, these cautionary statements qualify all of the forward-looking statements we make herein. We cannot assure the reader that the results or developments anticipated by us will be realized or, even if substantially realized, that those results or developments will result in the expected consequences for us or affect us, our business or our operations in the way we expect. We caution readers not to place undue reliance on these forward-looking statements, which speak only as of their dates. We assume no obligation to update any of the forward-looking statements.

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**WAL-MART STORES, INC.**  
**ANNUAL REPORT ON FORM 10-K**  
**FOR THE YEAR ENDED JANUARY 31, 2004**

**PART I**

**ITEM 1. BUSINESS**

**General**

Wal-Mart operates retail stores in various formats around the world. Wal-Mart is committed to growing by improving the standard of living for our customers throughout the world. We earn the trust of our customers every day by providing a broad assortment of quality merchandise and services at every day low prices (“EDLP”) while fostering a culture that rewards and embraces mutual respect, integrity and diversity. EDLP is our pricing philosophy under which we price items at a low price every day so that our customers trust that our prices will not change erratically under frequent promotional activity. During the fiscal year ended January 31, 2004, we had net sales of \$256.3 billion.

Our Wal-Mart Stores segment operations are comprised of three business segments. Our Wal-Mart Stores segment is the largest segment of our business, accounting for 68% of our fiscal 2004 sales. This segment consists of three different retail formats all of which operate in the United States including:

- Discount Stores, which average approximately 98,000 square feet in size and offer a wide variety of general merchandise and a limited variety of food products;
- Supercenters, which average approximately 187,000 square feet in size and offer a wide variety of general merchandise and a full-line supermarket; and
- Neighborhood Markets, which average approximately 43,000 square feet in size and offer a full-line supermarket and a limited variety of general merchandise.

Our SAM’S CLUB segment consists of membership warehouse clubs and accounts for 13.5% of our fiscal 2004 sales. SAM’S CLUB is in business for small businesses. Our focus for SAM’S CLUB is to provide exceptional value on brand name merchandise at “member’s only” prices for both business and personal use. Our domestic SAM’S CLUBs average approximately 127,000 square feet in size.

Our International segment consists of retail operations in eight countries and Puerto Rico. This segment generated 18.5% of our fiscal 2004 sales. The International segment includes several different formats of retail stores and restaurants, including Discount Stores, Supercenters and SAM’S CLUBs that operate outside the United States. Our international units average approximately 85,000 square feet in size. Additionally, we own an unconsolidated 37.8% minority interest in The Seiyu, Ltd. (“Seiyu”), a retailer in Japan.

We maintain our principal offices at 702 S.W. 8<sup>th</sup> Street, Bentonville, Arkansas 72716.

**The Development of Our Company**

Although Wal-Mart was incorporated in Delaware in October 1969, the businesses conducted by our founders began in 1945 when Sam M. Walton opened a franchise Ben Franklin variety store in Newport, Arkansas. In 1946, his brother, James L. Walton, opened a similar store in Versailles, Missouri. Until 1962, our founders’ business was devoted entirely to the operation of variety stores. In that year, the first Wal-Mart Discount City, which was a Discount Store, was opened. In fiscal 1984, we opened our first three SAM’S CLUBs, and in fiscal 1988, we opened our first Supercenter.

In fiscal 1992, we began our first international initiative when we entered into a joint venture in Mexico, in which we had a 50% interest, with Cifra S.A. de C.V. (“Cifra”). In fiscal 1998, we acquired the controlling interest in Cifra, and in February 2000, Cifra officially changed its name to Wal-Mart de Mexico, S.A. de C.V. Since fiscal 1992, our international presence has continued to expand and at January 31, 2004, we had international operations in Argentina, Brazil, Canada, Germany, South Korea, Mexico,

Puerto Rico and the United Kingdom. We also operate through joint ventures in China and through a minority interest in Japan.

At January 31, 2004, we operated in the United States 1,478 Discount Stores, 1,471 Supercenters, 538 SAM'S CLUBs and 64 Neighborhood Markets. Internationally, at January 31, 2004, the Company operated units in Argentina (11), Brazil (25), Canada (235), Germany (92), South Korea (15), Mexico (623), Puerto Rico (53) and the United Kingdom (267). We also operate through joint ventures in China (34). Additionally, we hold a 37.8% interest in Seiyu, a Japanese retail chain which operates approximately 400 stores throughout Japan.

Our growth, measured both by our net sales and net income, occurs in large measure as a result of our domestic and international expansion programs along with comparative store sales increases. We consider comparative store sales to be sales at stores that were open as of February 1st of the prior fiscal year and which have not been expanded or relocated during that period. Comparative store sales are also referred to as "same-store" sales by others within the retail industry.

The following tables provide summary information concerning the additions of units and square footage for domestic Discount Stores, Supercenters, SAM'S CLUBs, Neighborhood Markets and international units in each of our fiscal years from 2000 through 2004.

**WAL-MART STORES SEGMENT STORE COUNT  
YEARS ENDED JANUARY 31, 2000 THROUGH 2004**

**STORE COUNT (1)**

Fiscal Year	Wal-Mart Discount Stores				Wal-Mart Supercenters	
	Opened	Closed	Conversions (2)	Total	Opened (2)	Total
Balance Forward				1,869		564
2000	29	1	96	1,801	157	721
2001	41	2	104	1,736	167	888
2002	33	1	121	1,647	178	1,066
2003	43	—	122	1,568	192	1,258
2004	41	1	130	1,478	213	1,471

Fiscal Year	Neighborhood Markets		Total		
	Opened	Total	Opened (3)	Closed	Ending Balance
Balance Forward		4			2,437
2000	3	7	93	1	2,529
2001	12	19	116	2	2,643
2002	12	31	102	1	2,744
2003	18	49	131	—	2,875
2004	15	64	139	1	3,013

- (1) Totals and Ending Balances are as of January 31, of the years shown.  
(2) Includes conversions and / or relocations of Discount Stores to Supercenters.  
(3) Total opened, net of conversions and relocations, of Discount Stores to Supercenters.

**WAL-MART STORES SEGMENT NET SQUARE FOOTAGE GROWTH  
YEARS ENDED JANUARY 31, 2000 THROUGH 2004**

**NET SQUARE FOOTAGE (1)**

Fiscal Year	Wal-Mart Discount Stores		Wal-Mart Supercenters	
	Net Reductions (2)	Total	Net Additions (3)	Total
Balance Forward		176,273,018		102,224,471
2000	(5,486,901)	170,786,117	28,488,737	130,713,208
2001	(5,411,272)	165,374,845	31,884,669	162,597,877
2002	(7,689,137)	157,685,708	34,844,470	197,442,347
2003	(5,772,647)	151,913,061	37,168,923	234,611,270
2004	(6,848,207)	145,064,854	40,456,409	275,067,679

Fiscal Year	Neighborhood Markets		Total	
	Net Additions	Total	Net Additions	Total
Balance Forward		176,407		278,673,896
2000	144,083	320,490	23,145,919	301,819,815
2001	577,662	898,152	27,051,059	328,870,874
2002	519,838	1,417,990	27,675,171	356,546,045
2003	742,843	2,160,833	32,139,119	388,685,164
2004	616,804	2,777,637	34,225,006	422,910,170

(1) Totals as of January 31, of the years shown.

(2) Includes the square footage of new Discount Stores opened, net of Discount Stores closed, or converted or expanded into Supercenters or relocated into Supercenters.

(3) Includes conversions and / or relocations of Discount Stores to Supercenters.

**SAM'S CLUB SEGMENT CLUB COUNT  
AND NET SQUARE FOOTAGE GROWTH  
YEARS ENDED JANUARY 31, 2000 THROUGH 2004**

<b>CLUB COUNT (1)</b>			
<b>Fiscal Year</b>	<b>SAM'S CLUBs</b>		
	<b>Opened</b>	<b>Closed</b>	<b>Total</b>
Balance Forward			451
2000	12	1	462
2001	13	—	475
2002	25	—	500
2003	25	—	525
2004	13	—	538

<b>NET SQUARE FOOTAGE (1)</b>		
<b>Fiscal Year</b>	<b>SAM'S CLUBs</b>	
	<b>Net Additions</b>	<b>Total</b>
Balance Forward		54,649,430
2000	1,577,678	56,227,108
2001	1,773,830	58,000,938
2002	3,777,865	61,778,803
2003	3,968,149	65,746,952
2004	2,397,357	68,144,309

(1) Totals are as of January 31, of the years shown.



**INTERNATIONAL SEGMENT UNIT COUNT  
YEARS ENDED JANUARY 31, 2000 THROUGH 2004**

**STORE COUNT (1)**

Fiscal Year	Argentina			Brazil (2)				Canada		
	Wal-Mart Supercenters	SAM'S CLUBs	Total	Wal-Mart Supercenters	SAM'S CLUBs	Todo Dia	Total	Wal-Mart Stores	SAM'S CLUBs	Total
2000	10	3	13	9	5	—	14	166	—	166
2001	11	—	11	12	8	—	20	174	—	174
2002	11	—	11	12	8	2	22	196	—	196
2003	11	—	11	12	8	2	22	213	—	213
2004	11	—	11	13	10	2	25	231	4	235

Fiscal Year	China				Germany		South Korea
	Wal-Mart Supercenters	SAM'S CLUBs	Neighborhood Market	Total	Supercenters		Wal-Mart Supercenters
2000	5	1	—	6	94		5
2001	10	1	—	11	93		6
2002	15	3	1	19	95		9
2003	20	4	2	26	94		15
2004	28	4	2	34	92		15

Fiscal Year	Mexico				Puerto Rico				
	Wal-Mart Supercenters	SAM'S CLUBs	Other(3)	Total	Wal-Mart Stores	Wal-Mart Supercenters	SAM'S CLUBs	Amigo Stores	Total
2000	27	34	384	445	9	—	6	—	15
2001	32	38	413	483	9	—	6	—	15
2002	62	46	427	535	9	1	7	—	17
2003	75	50	456	581	9	1	9	33	52
2004	83	53	487	623	9	3	9	32	53

(1) Totals are as of January 31, of the years shown.

(2) Store counts for Brazil do not include 118 units acquired from Bompreco S.A. Supermercados do Nordeste in February 2004.

(3) At January 31, 2004, includes 140 Bodegas (combination discount and grocery stores), 52 Suburbias (specialty department stores), 44 Superamas (traditional supermarkets), and 251 Vips (restaurants) compared to 118 Bodegas, 50 Suburbias, 44 Superamas, and 244 Vips at January 31, 2003. Excludes Vips franchises for all years presented.

United Kingdom				
Fiscal Year	ASDA Stores	ASDA Supercenters	George Clothing Stores	Total
2000	231	1	—	232
2001	238	3	—	241
2002	244	6	—	250
2003	248	10	—	258
2004	253	12	2	267

**INTERNATIONAL NET SQUARE FOOTAGE GROWTH  
YEARS ENDED JANUARY 31, 2000 THROUGH 2004**

**NET SQUARE FOOTAGE (1)**

Fiscal Year	Argentina		Brazil (2)		Canada	
	Net Additions	Total	Net Additions	Total	Net Additions	Total
Balance Forward		2,341,042		2,216,255		17,949,532
2000	—	2,341,042	—	2,216,255	1,510,890	19,460,422
2001	(165,885)	2,175,157	818,833	3,035,088	1,019,999	20,480,421
2002	—	2,175,157	108,351	3,143,439	2,487,837	22,968,258
2003	—	2,175,157	—	3,143,439	1,774,046	24,742,304
2004	—	2,175,157	227,084	3,370,523	2,468,781	27,211,085

Fiscal Year	China		Germany		South Korea	
	Net Additions	Total	Net Additions	Total	Net Additions	Total
Balance Forward		687,041		9,294,860		553,683
2000	125,150	812,191	—	9,294,860	71,042	624,725
2001	836,701	1,648,892	(92,636)	9,202,224	223,425	848,150
2002	1,266,251	2,915,143	4,216,679	13,418,903	849,631	1,697,781
2003	1,109,834	4,024,977	(156,980)	13,261,923	1,193,894	2,891,675
2004	1,687,907	5,712,884	5,591	13,267,514	17,345	2,909,020

Fiscal Year	Mexico		Puerto Rico		United Kingdom	
	Net Additions	Total	Net Additions	Total	Net Additions	Total
Balance Forward		18,022,909		1,748,590		—
2000	1,696,475	19,719,384	—	1,748,590	18,825,234	18,825,234
2001	2,310,043	22,029,427	35,084	1,783,674	452,787	19,278,021
2002	6,904,068	28,933,495	320,555	2,104,229	942,165	20,220,186
2003	3,172,735	32,106,230	1,077,524	3,181,753	720,748	20,940,934
2004	3,227,671	35,333,901	296,471	3,478,224	1,026,523	21,967,457

(1) Totals and Ending Balances are as of January 31, of the years shown.

(2) Square footage for Brazil does not include 118 units acquired from Bompreco S.A. Supermercados do Nordeste in February 2004.

Much of our growth internationally in recent years has resulted from our acquisition of existing operations in various countries. During May 2002, the Company acquired its initial 6.1% stake in Seiyu, a Japanese retail chain, for approximately \$51 million. In December 2002, the Company exercised in full the first in the series of warrants granted allowing us to acquire 192.8 million new shares in Seiyu for approximately \$432 million. After this exercise, our ownership percentage in Seiyu increased to approximately 37.7%. In August 2003, the Company purchased an additional 20.2 million shares in Seiyu for approximately \$38 million bringing our ownership percentage in Seiyu to approximately 37.8%. Under the terms of the agreement, Wal-Mart, through a series of warrants exercisable in specified series through 2007, can contribute approximately 235 billion yen, or \$2.2 billion at a January 31, 2004 exchange rate of 105.7 yen per dollar, for additional shares of stock in Seiyu. If all the warrants are exercised, we will own approximately 69.4% of the stock of Seiyu by the end of December 2007.

In December 2002, the Company completed its purchase of Supermercados Amigo, Inc. ("Amigo"), a supermarket chain located in Puerto Rico with 37 supermarkets at the time of the acquisition. Six of the supermarkets were subsequently sold.

Subsequent to fiscal year-end 2004, in February 2004, the Company completed its purchase of Bompreco S.A. Supermercados do Nordeste ("Bompreco"), a supermarket chain in northern Brazil with 118 hypermarkets, supermarkets and mini markets. The purchase price was approximately \$300 million. The results of operations for Bompreco will be included in our consolidated financial statements beginning in fiscal 2005.

We have provided additional information regarding the accounting treatment of the acquisitions discussed above in Note 6 of the Notes to Consolidated Financial Statements which appear in our Annual Report to Shareholders and are incorporated by reference herein and have been included as an exhibit to this Annual Report.

### **Our Industry Segments**

Our mass merchandising operations serve our customers primarily through the operation of three segments. We identify those segments based on Management responsibility within the United States and for total international units. The Wal-Mart Stores segment includes our Discount Stores, Supercenters and Neighborhood Markets in the United States as well as the Wal-Mart.com (www.walmart.com) operation. The SAM'S CLUB segment includes the warehouse membership clubs in the United States. The International segment includes all of our operations in Argentina, Brazil, Canada, China, Germany, Korea, Mexico, Puerto Rico and the United Kingdom. Wal-Mart's portion of the results of our unconsolidated 37.8% minority interest in the Japanese retailer, Seiyu, is included in the Other segment. You will find information concerning the financial results of our operating segments and the total assets of each of those segments in Note 11 of the Notes to Consolidated Financial Statements and in Management's Discussion and Analysis of Results of Operations and Financial Condition. We have incorporated our Consolidated Financial Statements as of January 31, 2004 and for the year then ended and the Notes to the Consolidated Financial Statements, as well as Management's Discussion and Analysis of Results of Operations and Financial Condition by reference herein to our Annual Report to our Shareholders and included them as an exhibit to this Annual Report.

### **Wal-Mart Stores Operating Segment**

The Wal-Mart Stores segment had net sales of \$174.2 billion, \$157.1 billion and \$139.1 billion for the fiscal years ended January 31, 2004, 2003, and 2002, respectively. During the most recent fiscal year, no single Discount Store, Supercenter or Neighborhood Market location accounted for as much as 1% of total Company sales or net income.

**General** We operate Wal-Mart Discount Stores in all 50 states, Supercenters in 45 states and Neighborhood Markets in 12 states. Our Discount Stores range in size from 30,000 square feet to 220,000 square feet, with the average size of a Discount Store being approximately 98,000 square feet. Supercenters range in size from 100,000 square feet to 261,000 square feet, with the average size of a Supercenter being approximately 187,000 square feet. Neighborhood Market stores range in size from 38,000 square feet to 55,000 square feet, with the average size being approximately 43,000 square feet. Customers can also access a broad assortment of merchandise and services on-line through the internet at www.walmart.com.

**Merchandise** Wal-Mart Discount Stores and the general merchandise area of Supercenters carry apparel for women, girls, men, boys and infants, domestics, fabrics and notions, stationery and books, shoes, housewares, hardware, electronics, home furnishings, small appliances, automotive accessories, horticulture and accessories, sporting goods, toys, pet food and pet accessories, cameras and supplies, photo processing, health and beauty aids, pharmaceuticals, jewelry and optical. In addition, our stores offer an assortment of grocery merchandise. The grocery assortment in our Supercenters consists of a full line of grocery items including meat, produce, deli, bakery, dairy, frozen foods and dry grocery. Most of our Discount Stores carry a limited assortment of dry grocery merchandise while a number of our larger Discount Stores in some markets carry a broader assortment of grocery items, including perishable items. Neighborhood Markets are generally organized into dry grocery, meat, produce, deli, bakery, dairy, frozen

foods, pharmaceuticals, photo processing, health and beauty aids, household chemicals, paper goods, general merchandise and pet supplies.

Nationally advertised merchandise accounts for a majority of sales in the stores. We market lines of merchandise under our store brands including “Sam’s American Choice,” “One Source,” “Great Value,” “Ol’ Roy,” “Puritan,” “Equate,” “No Boundaries,” “George,” “Athletic Works” and “Kid Connection.” The Company also markets lines of merchandise under licensed brands, some of which include “Faded Glory,” “General Electric,” “Disney,” “Catalina,” “McDonald’s,” “Mary-Kate and Ashley” and “Starter.”

During the fiscal year ended January 31, 2004, sales in Discount Stores and Supercenters (which are subject to seasonal variance) by product category were as follows:

CATEGORY	PERCENTAGE OF SALES
Grocery, candy and tobacco	26
Hardgoods	20
Softgoods/domestics	16
Pharmaceuticals	9
Electronics	9
Health and beauty aids	7
Sporting goods and toys	6
Stationery and books	3
Photo processing	2
Jewelry	1
Shoes	1
	100%

**Operations** Hours of operation for nearly all Supercenters and an increasing number of Discount Stores are 24 hours each day. Hours of operation for the remaining Discount Stores vary by location, but are generally 7:00 a.m. to 11:00 p.m., six days a week, and from 10:00 a.m. to 8:00 p.m. on Sundays. Wal-Mart Discount Stores and Supercenters maintain uniform prices, except where lower prices are necessary to meet local competition. Sales are primarily on a cash-and-carry basis with the objective of maximizing sales volume and inventory turnover while minimizing expenses; however, we also accept credit cards and pin-based debit cards at all Discount Store, Supercenter and Neighborhood Market locations.

**Seasonal Aspects of Operations** The Wal-Mart Stores operating segment’s business is seasonal to a certain extent. Generally, its highest volume of sales occurs in our fourth fiscal quarter, which includes the holiday season, and the lowest volume occurs during our first fiscal quarter.

**Competition** Our Discount Stores compete with other discount, department, drug, variety and specialty stores and supermarkets, many of which are national chains. Our Supercenters compete with other supercenter-type stores, discount stores, supermarkets and specialty stores, many of which are national or regional chains. We also compete with other retailers for new store sites. As of January 31, 2004, based on net sales, the Wal-Mart Stores segment ranked first among all retail department store chains and among all discount department store chains.

Our ability to offer value and service to our customers largely determines our competitive position within the retail industry. We employ many programs designed to meet the competitive pressures within our industry. These programs include the following:

- Everyday Low Price (“EDLP”) – our pricing philosophy under which we price items at a low price every day so that our customers trust that our prices will not change erratically under frequent promotional activity;
- Rollbacks – our commitment to continually pass internal and external cost savings on to the customer;
- Store Within a Store – a program to provide accountability to assistant managers and department managers as to merchandise planning and overall department performance; and
- Store of the Community – a program to ensure that merchandise assortment fits the demographic needs of the local community.

In addition to these programs, we believe our broad assortment of merchandise that provides one-stop shopping, our high in-stock levels that provide confidence to our customers that we will have what they need, and our long operating hours that allow customers to shop at their convenience provide us with an additional competitive advantage.

**Distribution** During fiscal 2004, approximately 80% of the Discount Stores' and Supercenters' purchases of merchandise were shipped from Wal-Mart's 90 distribution centers, of which 34 are general merchandise distribution centers, 30 are grocery distribution centers, seven are clothing distribution centers and 15 are specialty distribution centers. The specialty distribution centers ship merchandise such as jewelry, tires, optical, product returns, and pharmaceuticals. The balance of merchandise purchased was shipped directly to stores from suppliers. Additionally, the Company operates three import distribution centers and one distribution center for online orders placed via www.walmart.com. The 90 distribution centers are located throughout the continental United States. Ten distribution centers are located in Texas, nine in Arkansas; eight in Georgia; five in Indiana; four in each of California, New York and Ohio; three in each of Florida, Missouri, North Carolina, Pennsylvania and Virginia; two each in Alabama, Arizona, Illinois, Kentucky, Louisiana, Mississippi, South Carolina, Tennessee, Utah and Wisconsin; and one each in Colorado, Iowa, Kansas, Maryland, Michigan, New Hampshire, New Mexico, Nebraska, Nevada, Oklahoma, and Oregon. General merchandise is transported to stores primarily through our private truck fleet. However, we contract with common carriers to transport the majority of our perishable and dry grocery merchandise.

### **SAM'S CLUB Operating Segment**

The SAM'S CLUB segment had net sales of \$34.5 billion, \$31.7 billion and \$29.4 billion for the fiscal years ended January 31, 2004, 2003, and 2002, respectively. During the most recent fiscal year, no single club location accounted for as much as 1% of total Company sales or net income.

**General** We operate SAM'S CLUBs in 48 states. SAM'S CLUBs facility sizes generally range between 70,000 and 190,000 square feet, with the average SAM'S CLUB facility being approximately 127,000 square feet. SAM'S CLUB provides to its members a broad assortment of merchandise and services on-line through the internet at www.samsclub.com.

**Merchandise** SAM'S CLUB offers bulk displays of name-brand merchandise, including hardgoods, some soft goods, institutional-size grocery items, and selected private-label items under the "Member's Mark" and "Bakers & Chefs" brands. Generally, each SAM'S CLUB also carries software, electronics, jewelry, floral, sporting goods, toys, tires, stationery and books. Most Clubs have fresh departments, which include bakery, meat, produce, floral and Sam's Cafe. Additionally, a significant number of our Clubs offer photo processing, pharmaceuticals, optical departments and gasoline stations.

During the fiscal year ended January 31, 2004, sales in the SAM'S CLUB segment, which are subject to seasonal variance, by product category were as follows:

CATEGORY	PERCENTAGE
	OF SALES
Food	30
Sundries	28
Hardlines	20
Service Businesses	15
Softlines	7
	100%

**Operations** Operating hours for SAM'S CLUBs are Monday through Friday from 10:00 a.m. to 8:30 p.m., Saturday from 9:30 a.m. to 8:30 p.m. and Sunday from 11:00 a.m. to 6:00 p.m. Additionally, all Club locations offer a Gold Key program that permits Business Members to shop before the regular opening hours Monday through Saturday, starting at 7:00 a.m.

SAM'S CLUBS are membership only, cash-and-carry operations. Limited credit facilities are available to include the "SAM'S Direct" commercial finance program and "Business Revolving Credit" available to qualifying business members. Also, we make a "Personal Credit" program available to qualifying club members and accept the Discover Card in all Clubs. Credit extended to members under these programs is without recourse to the Company. Club members include businesses and those individuals who are members of certain qualifying organizations, such as credit union members. In fiscal 2004, business members paid an annual membership fee of \$30 for the primary membership card with a spouse card available at no additional cost. In addition, business members can add up to eight business associates for \$30 each. The annual membership fee for an individual "Advantage" member is \$35 for the primary membership card with a spouse card available at no additional cost. The SAM'S CLUB PLUS Membership program offers additional benefits and services such as insurance services, roadside assistance, credit card processing, payroll processing, dental discount networks, and 401(k) and retirement programs. The annual membership fee for a PLUS Member is \$100.

**Seasonal Aspects of Operations** The SAM'S CLUB operating segment's business is seasonal to a certain extent. Generally, its highest volume of sales occurs in our fourth fiscal quarter, which includes the holiday season, and the lowest volume occurs during our first fiscal quarter.

**Competition** SAM'S CLUBS compete with other warehouse clubs, as well as with discount retailers, retail and wholesale grocers and general merchandise wholesalers and distributors. We also compete with other retailers for desirable new club sites. Our ability to offer low prices and quality merchandise determines our competitive position in the warehouse club industry.

**Distribution** During fiscal 2004, approximately 63% of the SAM'S CLUB purchases were shipped from the SAM'S CLUB segment's dedicated distribution facilities. Suppliers shipped the balance of the SAM'S CLUB purchases directly to SAM'S CLUB locations. The principal focus of our SAM'S CLUB's distribution operations is on crossdocking product, while stored inventory is minimized. Crossdocking is a distribution process under which shipments are directly transferred from inbound to outbound trailers without storage in between. Shipments typically spend less than 24 hours in a crossdock facility, sometimes less than an hour. A combination of seven Company owned and operated distribution facilities and 12 third-party owned and operated facilities constitute the overall distribution structure for the SAM'S CLUB segment. Two of the Company owned and operated facilities are located in Texas with one located in each of Arizona, Arkansas, Colorado, Minnesota and Indiana. Of the third-party owned and operated facilities, one of each is located in California, Florida, Georgia, Illinois, Maryland, Michigan, Missouri, New Hampshire, North Carolina, Ohio, Pennsylvania and Washington. SAM'S CLUB uses a combination of our private truck fleet as well as common carriers to transport our non-perishable merchandise from distribution centers to our Clubs. However, we contract with common carriers to transport our perishable grocery merchandise from distribution centers to our Clubs.

### **International Operating Segment**

Our International segment is comprised of our operations through wholly-owned subsidiaries in Argentina, Canada, Germany, South Korea, Puerto Rico and the United Kingdom, our operations through majority-owned subsidiaries in Brazil and Mexico and our operations through joint ventures in China. Wal-Mart's portion of the results of our unconsolidated 37.8% minority interest in Japanese retailer, Seiyu, is included in the Other segment. The International segment's net sales for the fiscal years ended January 31, 2004, 2003 and 2002, were \$47.6 billion, \$40.8 billion and \$35.5 billion, respectively. During the most recent fiscal year, no single location accounted for as much as 1% of total Company sales or net income.

**General** Operating formats vary by country, but include Discount Stores in Canada and Puerto Rico; Supercenters in Argentina, Brazil, China, Germany, South Korea, Mexico, Puerto Rico and the United Kingdom; SAM'S CLUBS in Brazil, Canada, China, Mexico, and Puerto Rico; Superamas (traditional supermarket), Bodegas (combination discount and grocery store), Suburbias (specialty department store) and Vips (restaurant) in Mexico; Todo Dias (combination discount and grocery store) in Brazil; Neighborhood Markets (traditional supermarkets) in China; ASDA stores (combination grocery and apparel store) and George stores (apparel store) in the United Kingdom; and Amigo supermarkets in Puerto Rico.

**Merchandise** The merchandising strategy for the International operating segment is similar to that of domestic segments in the breadth and scope of merchandise offered for sale. While brand name

merchandise accounts for a majority of sales, several store brands not found in the United States have been developed to serve customers in the different markets in which the International segment operates. In addition, steps have been taken to develop relationships with local suppliers in each country to ensure reliable sources of quality merchandise.

**Operations** The hours of operation for operating units in the International segment vary by country and by individual markets within countries, depending upon local and national ordinances governing hours of operation. While sales are primarily on a cash-and-carry basis, credit cards or other consumer finance programs exist in certain markets to facilitate the purchase of goods by the customer.

**Seasonal Aspects of Operations** The International operating segment's business is seasonal to a certain extent. Generally, the highest volume of sales occurs in our fourth fiscal quarter. The seasonality of the business varies by country due to different national and religious holidays, festivals and customs, as well as different climatic conditions.

**Competition** The International operating segment competes with a variety of local, national and international chains in the supermarket, discount, department, drug, variety, specialty and wholesale sectors of the retail market in each of the countries in which we operate and, in Mexico, with local, national and international restaurant chains. Our ability to offer our customers low prices on quality merchandise that offers exceptional value in the International segment determines, to a large extent, our competitive position. In our international units, our ability to effectively operate the food departments has a major impact on the segment's competitive position in the markets where we operate.

**Distribution** The International segment operates export consolidation facilities in California, Florida and Texas in support of product flow to its Mexican, Asian, and Latin American markets. We operate a total of 53 distribution facilities that are located in Argentina, Brazil, Canada, China, Germany, Puerto Rico, the United Kingdom and Mexico. Through these facilities, we process and distribute both imported and domestic product to the operating units. During fiscal 2004, approximately 76% of the International segment's purchases flowed through these distribution facilities. Suppliers ship the balance of the International segment's purchases directly to our stores in the various countries in which we operate. A combination of Company owned and operated distribution facilities and third-party facilities makes up the overall distribution structure for International logistics.

#### **Employees (Associates)**

As of January 31, 2004, the Company employed approximately 1.5 million Associates worldwide, with approximately 1.2 million Associates in the United States and approximately 360,000 Associates in foreign countries. Most Associates participate in incentive programs, which provide the opportunity to receive additional compensation based upon the Company's productivity or profitability.

#### **Our Website and Availability of SEC Reports**

Our corporate website is located at [www.walmartstores.com](http://www.walmartstores.com). We make copies of our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendment to those reports filed with or furnished to the SEC available to investors on or through our website free of charge as soon as reasonably practicable after we electronically file them with or furnish them to the SEC. Our SEC filings can be found on the Investor Relations page of our website, the address of which is

<http://investor.walmartstores.com/phoenix.zhtml?c=112761&p=irol-sec>



## **ITEM 2. PROPERTIES**

The number and location of domestic and international Wal-Mart Discount Stores, Supercenters and SAM'S CLUBs and other formats is incorporated by reference to the table under the caption "Fiscal 2004 End-of-Year Store Count" included in the Annual Report to Shareholders for the year ended January 31, 2004, which information we have included as an exhibit to this Annual Report.

As of January 31, 2004, we own 2,102 of the properties on which our domestic Discount Stores, Neighborhood Markets and Supercenters are located and 389 of the properties on which our domestic SAM'S CLUBs are located. In some cases, we own the land associated with leased buildings in which our Discount Stores, Neighborhood Markets, Supercenters and SAM'S CLUBs are located. We either lease the remaining buildings in which our present domestic locations are located from a commercial property developer, lease them pursuant to sale/leaseback arrangements or lease them from a local governmental entity in connection with industrial revenue bond financing arrangements. All store leases provide for fixed annual rentals and, in many cases, the leases provide for additional rent based on sales volume.

We use independent contractors to construct our buildings.

Domestically, we operated 90 Wal-Mart distribution facilities and 19 SAM'S CLUB distribution facilities as of January 31, 2004. With the exception of 12 SAM'S CLUB distribution facilities that are leased, we own the remaining distribution facilities, several of which are subject to mortgages granted to secure loans obtained to finance their development. We also lease some of the distribution facilities under industrial development bond financing arrangements that provide us with the option to purchase those facilities at the end of the lease term for nominal amounts.

We own the office facilities in Bentonville, Arkansas that serve as our home office. We lease an office facility in Brisbane, California that serves as the home office for Wal-Mart.com

We operate our International segment stores and restaurants in a combination of owned and leased properties in each country in which our International segment operates. As of January 31, 2004, we own 9 properties in Argentina, 14 properties in Brazil, 51 properties in Canada, 1 property in China, 19 properties in Germany, 15 properties in South Korea, 316 properties in Mexico, 7 properties in Puerto Rico and 176 properties in the United Kingdom in which the operating units are located, with the remaining units in each country being leased. We utilize both owned and leased properties for office facilities in each country in which we are conducting business. Outside the United States, we utilized 53 distribution facilities as of January 31, 2004. Of these 53 distribution facilities, we owned 29 and leased 1. Third parties own and operated the remaining 23 distribution facilities.

## **ITEM 3. LEGAL PROCEEDINGS**

**I. SUPPLEMENTAL INFORMATION:** We discuss certain legal proceedings pending against us in Part II of this Annual Report on Form 10-K under the caption "Item 8. Financial Statements," in Note 8 to our financial statements, which is captioned "Litigation," and refer you to that discussion for important information concerning those legal proceedings, including the basis for such action and the relief sought. We provide the following additional information concerning those legal proceedings which sets forth the name of the lawsuit, the court in which the lawsuit is pending and the date on which the petition commencing the lawsuit was filed. In each lawsuit's name, the letters "WM" refer to Wal-Mart Stores, Inc.:

**Wage and Hour "Off the Clock" Class Actions:** *Armijo v. WM*, 1<sup>st</sup> Judicial Dist. Ct., Rio Arriba County, NM, 9/18/00; *Bailey v. WM*, Marion County Superior Ct. IN, 8/17/00; *Barnett v. WM*, Superior Ct. of WA, King County, 9/10/01; *Basco v. WM*, US Dist. Ct. ("USDC"), Eastern Dist. of LA, 9/5/00; *Braun v. WM*, 1<sup>st</sup> Judicial Dist. Ct. Dakota County MN, 9/12/01; *Braun v. WM*, Ct. of Common Pleas, Philadelphia County, PA, 3/20/02; *Brown v. WM*, 14<sup>th</sup> Judicial Circuit Ct., Rock Island, IL, 6/20/01; *Carr v. WM*, Superior Ct. of Fulton County, GA, 8/14/01; *Osuna v. WM*, Superior Ct. of AZ, Pima County, 11/30/01; *Carter v. WM*, Ct. of Common Pleas, Colleton County, SC, 7/31/02; *Gamble v. WM*, Supreme Ct. of the State of NY, County of Albany, 12/7/01; *Hale v. WM*, Circuit Ct., Jackson County, MO, 8/15/01; *Hall v. WM*, 8<sup>th</sup> Judicial Dist.

Ct., Clark County, NV, 9/9/99; *Harrison v. WM*, Superior Ct. of Forsyth County, NC, 11/29/00; *Holcomb v. WM*, State Ct. of Chatham County, GA, 3/28/00; *Iliadis v. WM*, Superior Ct. of NJ, Middlesex County, 5/30/02; *Jackson v. WM*, USDC, Middle Dist. of AL, Northern Div., 2/24/03; *Salvas v. WM*, Superior Ct., Middlesex County, MA, 8/21/01; *Kuhlmann (In Re: Wal-Mart Employee Litigation) v. WM*, Circuit Ct., Milwaukee County, WI, 8/30/01; *Lerma v. WM*, Dist. Ct., Cleveland County, OK, 8/31/01; *Lopez v. WM*, 23<sup>rd</sup> Judicial Dist. Ct. of Brazoria County, TX, 6/23/00; *Michell v. WM*, USDC, Eastern Dist. of TX, Marshall Div., 9/13/02; *Montgomery v. WM*, USDC, Southern Dist. of MS, 12/30/02; *Mussman v. WM*, IA Dist. Ct., Clinton County, 6/5/01; *Nagy v. WM*, Circuit Ct. of Boyd County, KY, 8/29/01; *Pickett v. WM*, Circuit Court, Shelby County, TN, 10/22/03; *Pittman v. WM*, Circuit Ct. for Prince George's County, MD, 7/31/02; *Richards v. WM*, Circuit Ct. of Harrison County, WV, 6/26/98; *Robinson v. WM*, Circuit Ct., Holmes County, MS, 12/30/02; *Sago v. WM*, Circuit Ct., Holmes County, MS, 12/31/02; *Sarda v. WM*, Circuit Ct., Washington County, FL, 9/21/01; *Savaglio v. WM*, Superior Ct. of CA, Alameda County, 2/6/01; *Smith v. WM*, Circuit Ct., Holmes County, MS, 12/31/02; *Thiebes v. WM*, USDC, Dist. of OR, 6/30/98; *Willey v. WM*, Dist. Ct. of Wyandotte County, KS, 9/21/01; *Wilson v. WM*, Common Pleas Ct. of Butler County, OH, 10/27/03; *Winters v. WM*, Circuit Ct., Holmes County, MS, 5/28/02.

**California Labor Code Cases:** *Cruz v. WM*, Superior Ct. of CA, Los Angeles County, CA, 10/24/03; *UFCW v. WM*, Superior Ct. of CA, Alameda County, CA, 10/30/03.

**Exempt Status Cases:** *Ramsey v. WM*, USDC, Western Dist. of MI, Northern Div., 12/23/02; *Comer v. WM*, Western Dist. of MI, Northern Div., 2/27/04; *Sepulveda v. WM*, Superior Ct. of CA, Los Angeles County, CA, 1/14/04; *LaMonica v. WM*, Superior Ct. of CA, Los Angeles County, CA, 2/20/04.

**Dukes v. WM:** *Dukes v. WM*, USDC, Northern Dist. of CA, San Francisco Div., 6/19/01.

**COLI Litigation:** *Mayo v. Hartford Life Ins. Co.*, USDC, Southern Dist. of TX, Houston Div., 6/28/01; *Waller v. AIG Life Ins. Co.*, USDC, Northern Dist. of TX, Fort Worth Div., 7/3/01; *Rice v. WM*, USDC, Dist. of NH, 7/23/02; *Miller v. WM*, USDC, Southern Dist. of TX, Houston Div., 10/22/02; *Lewis v. WM*, USDC, Northern Dist. of OK, 12/18/02.

**Mauldin v. WM:** *Mauldin v. WM*, USDC, Northern Dist. of GA, Atlanta Div., 10/16/01.

**EEOC (Smith) v. WM:** *EEOC (Smith) v. WM*, USDC, Eastern Dist. of KY, London Div., 8/31/01.

**Item Pricing Litigation:** *Herman v. WM*, 11/27/02; *Downing v. WM*, 11/26/02; *Carmel v. WM*, 12/5/02; *Sullivan v. WM*, 12/6/02; *Cutlip v. WM*, 12/5/02; *Cameron v. WM*, 12/20/02; *Tierney v. WM*, 12/24/02; Middlesex Superior Ct., MA.

**II. ENVIRONMENTAL MATTERS:** Item 103 of SEC Regulation S-K requires disclosure of certain environmental matters. The following matters are disclosed in accordance with that requirement:

During fiscal 2001, the State of Connecticut filed suit against the Company in the Superior Court for the Judicial District of Hartford alleging various violations of state environmental laws and alleging that the Company failed to obtain the appropriate permits or failed to maintain required records relating to storm water management practices at 12 stores. In December 2003, the State filed an amended complaint alleging that the Company also had discharged wastewater associated with vehicle maintenance activities and photo processing activities without proper permits. The suit seeks to ensure the Company's compliance with the general permits applicable to those activities.

The United States Environmental Protection Agency ("EPA") has alleged that the Company and some of its construction contractors have violated the EPA's stormwater regulations on specific sites primarily in Colorado and Utah, but also in other parts of the country. On July 31, 2003, the Company served the EPA with a Notice of Dispute as required by a national consent decree entered into between the Company and the EPA in August 2001. Serving the Notice of Dispute initiated an informal dispute resolution process in accordance with the terms of the consent decree. The Company also filed a copy of the Notice of Dispute with the United States District Court for the Western District of Arkansas.

On July 29, 2002, the EPA advised the Company that it had initiated an investigation involving the Company's compliance with sections 608 and 609 of the Clean Air Act and regulations promulgated thereunder with regard to the sales of Class I and Class II refrigerant products. The statutes provide that the sales of these products are restricted to persons and/or entities which are properly licensed. The EPA asserts that, during the relevant time period, the Company made approximately 20 such sales to non-licensed persons and/or entities. The Company has reached an agreement to settle these allegations without admitting any wrongdoing or violations of the statutes by paying a \$400,000 civil penalty and entering into a Consent Decree with the EPA. When approved by the court, the Consent Decree will require that the Company comply fully with the relevant Clean Air Act sections and regulations in the future.

In August 2003, the Company was served with a grand jury subpoena in connection with an investigation by the Office of District Attorney of Harris County, Texas. The subpoena seeks information related to the waste disposal activities of one of the Company's photo processing labs. The Company is cooperating with the investigation.

In the Spring of 2003, an investigation was initiated by the Florida Department of Environmental Protection ("FDEP") in connection with the Company's alleged failure to comply with certain rules and regulations governing the ownership and operation of above-ground storage tank systems as set forth in Chapter 62-761, Florida Administrative Code. Negotiations between the Company and the FDEP to resolve this matter have commenced.

**III. IMMIGRATION MATTER:** On or about October 30, 2003, Wal-Mart was formally advised by the United States Attorney for the Middle District of Pennsylvania that it was the "target" of a federal grand jury investigation. The notice from the government did not identify the nature of the allegations against Wal-Mart, but rather generally indicated that Wal-Mart was the target of a grand jury investigation assessing potential violations of Federal law including conspiracy, aiding and abetting transporting illegal aliens and encouraging illegal aliens to reside in the United States, all for the purpose of commercial advantage or private financial gain, and aiding and abetting the unlawful employment of illegal aliens. Wal-Mart believes the grand jury investigation relates to its relationship with certain third-party contractors providing floor cleaning services to Wal-Mart and those contractors' alleged employment of individuals who may be in the United States illegally. The Grand Jury investigation is on-going. Any potential liability on the part of the Company cannot be determined at this time.

On or about November 10, 2003, a civil action was filed against the Company in the United States District Court for the District of New Jersey, captioned *Zavala et al. v. Wal-Mart Corporation, et al.*, Case No. 03-CV-5309. This complaint asserts claims under the Fair Labor Standards Act, the Racketeer Influenced Corrupt Organizations Act, and various statutory causes of action and common law torts arising from the Company's relationship with certain third-party contractors responsible for providing floor cleaning services in its stores. Any potential liability on the part of the Company cannot be determined at this time.

#### **ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

No matters were submitted to a vote of the Company's security holders during the last quarter of the fiscal year ended January 31, 2004.

### **PART II**

#### **ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED SHAREHOLDER MATTERS**

The information required by this item is incorporated by reference to the "Number of Shareholders of Record" under the caption "11-Year Financial Summary", and all the information under the captions "Market Price of Common Stock," "Listings—Stock Symbol: WMT" and "Dividends Per Common Share" included in the Annual Report to Shareholders for the year ended January 31, 2004. Such information is included in an exhibit to this Annual Report.

Information about our equity compensation plans is incorporated by reference to all information under the caption “Equity Compensation Plan Information” included in the Company’s definitive Proxy Statement for its Annual Meeting of Shareholders to be held on Friday, June 4, 2004 (the “Proxy Statement”).

#### **ITEM 6. SELECTED FINANCIAL DATA**

The information required by this item is incorporated by reference to all information under the caption “11-Year Financial Summary” included in the Annual Report to Shareholders for the year ended January 31, 2004. Such information is included in an exhibit to this Annual Report.

#### **ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION**

The information required by this item is incorporated by reference to all information under the caption “Management’s Discussion and Analysis of Results of Operations and Financial Condition” included in the Annual Report to Shareholders for the year ended January 31, 2004. Such information is included in an exhibit to this Annual Report.

#### **ITEM 7a. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK**

The information required by this item is incorporated by reference to all information under the sub-caption “Market Risk” of the caption “Management’s Discussion and Analysis of Results of Operations and Financial Condition” included in the Annual Report to Shareholders for the year ended January 31, 2004. Such information is included in an exhibit to this Annual Report.

#### **ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA**

The information required by this item is incorporated by reference to all information under the captions “Consolidated Statements of Income,” “Consolidated Balance Sheets,” “Consolidated Statements of Shareholders’ Equity,” “Consolidated Statements of Cash Flows,” “Notes to Consolidated Financial Statements” and “Report of Independent Auditors” included in the Annual Report to Shareholders for the year ended January 31, 2004. Such information is included in an exhibit to this Annual Report.

#### **ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

#### **ITEM 9A. CONTROLS AND PROCEDURES**

The Company maintains a system of disclosure controls and procedures that are designed to provide reasonable assurance that information, which is required to be timely disclosed, is accumulated and communicated to Management in a timely fashion. An evaluation of the effectiveness of the design and operation of Wal-Mart’s disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) (“Disclosure Controls”) was performed as of the end of the period covered by this report. This evaluation was performed under the supervision and with the participation of the Company’s Management, including the Company’s Chief Executive Officer and Chief Financial Officer. Based upon that evaluation, the Company’s Chief Executive Officer and Chief Financial Officer concluded that these Disclosure Controls are effective to provide reasonable assurance that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company’s Management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure and are effective to provide reasonable assurance that such information is recorded, processed, summarized and reported within the time periods specified by the SEC’s rules and forms.

There has been no change in the Company’s internal control over financial reporting that occurred during the fiscal quarter ended January 31, 2004 that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

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### **PART III**

#### **ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT**

Information required by this item with respect to the Company's directors and compliance by the Company's directors, executive officers and certain beneficial owners of the Company's Common Stock with Section 16(a) of the Securities Exchange Act of 1934 is incorporated by reference to all information under the captions entitled "Nominees for Election to the Board of Directors" and "Section 16(a) Beneficial Ownership Reporting Compliance" from our Proxy Statement.

#### **EXECUTIVE OFFICERS OF THE REGISTRANT**

The following chart names each of the executive officers of the Company, each of whom is elected by and serves at the pleasure of the Board of Directors. The business experience shown for each officer has been his principal occupation for at least the past five years.

<b><u>Name</u></b>	<b><u>Business Experience</u></b>	<b><u>Current Position Held Since</u></b>	<b><u>Age</u></b>
S. Robson Walton	Chairman of the Board.	1992	59
David D. Glass	Chairman, Executive Committee of the Board. Prior to January 2000, he served as President and Chief Executive Officer of the Company.	2000	68
H. Lee Scott, Jr.	President and Chief Executive Officer. From January 1999 to January 2000, he served as Vice Chairman and Chief Operating Officer of the Company. From January 1998 to January 1999, he served as Executive Vice President and President and Chief Executive Officer of the Wal-Mart Stores Division. Prior to January 1998, he served as Executive Vice President – Merchandising of the Company.	2000	55
Thomas M. Coughlin	Vice Chairman of the Board. From April 2003 to June 2003, he served as Executive Vice President and Vice Chairman of Wal-Mart Stores, Inc. (USA). From August 2002 to April 2003, he served as Executive Vice President and Chief Executive Officer of the Wal-Mart Stores and SAM'S CLUB Divisions. From January 1999 to August 2002, he served as Executive Vice President and President and Chief Executive Officer of the Wal-Mart Stores Division. From January 1998 to January 1999, he served as Executive Vice President and Chief Operating Officer of the Wal-Mart Stores Division. Prior to January 1998, he served as Executive Vice President—Store Operations of the Company.	2003	54
Michael T. Duke	Executive Vice President and President and Chief Executive Officer of the Wal-Mart Stores Division. From July 2000 to April 2003, he served as Executive Vice President of Administration. From March 2000 to July 2000, he served as Executive Vice President of Logistics. From July 1995 to March 2000, he served as Senior Vice President of Logistics. Prior to July 1995, he served as Senior Vice President of Distribution.	2003	54

B. Kevin Turner	Executive Vice President and President and Chief Executive Officer of the SAM'S CLUB Division. From September 2001 to August 2002, he served as Executive Vice President and Chief Information Officer of the Information Systems Division. From March 2000 to September 2001, he served as Senior Vice President and Chief Information Officer of the Information Systems Division.	2002	38
Thomas D. Hyde	Executive Vice President, Legal and Corporate Affairs and Corporate Secretary. From July 2001 to June 2002, he served as Executive Vice President and Senior General Counsel. Prior to July 2001, he served as Senior Vice President and General Counsel of Raytheon Company since 1992.	2001	55
John B. Menzer	Executive Vice President and President and Chief Executive Officer of Wal-Mart International. Prior to June 1999, he served as Executive Vice President and Chief Financial Officer of the Company.	1999	53
Thomas M. Schoewe	Executive Vice President and Chief Financial Officer of the Company. From February 1997 to January 2000, he served as Senior Vice President and Chief Financial Officer of Black & Decker Corporation. Prior to February 1997, he served as Vice President and Chief Financial Officer of Black & Decker Corporation.	2000	51
Charles M. Holley, Jr.	Senior Vice President and Controller of the Company. From March 1999 to January 2003, he served as Senior Vice President, Finance and Chief Financial Officer of Wal-Mart International. From October 1996 to March 1999 he served as Vice President and Chief Financial Officer of Wal-Mart International.	2003	47

Additional information regarding our Board and Committee Governing Documents, our Audit Committee, our director nomination process, and our Code of Ethics for senior financial officers required by this item is incorporated by reference to all information under the caption entitled "Corporate Governance" included in our Proxy Statement.

#### **ITEM 11. EXECUTIVE COMPENSATION**

The information required by this item is incorporated by reference to all information under the caption entitled "Compensation of Directors," "Compensation, Nominating and Governance Committee Report on Executive Compensation," "Summary Compensation," "Option Grants In Last Fiscal Year" and "Aggregated Option Exercises in Last Fiscal Year and Fiscal Year End Option Values" included in our Proxy Statement.

#### **ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

The information required by this item is incorporated by reference to all information under the caption entitled "Stock Ownership", subcaptions "Holdings of Major Shareholders" and "Holdings of Officers and Directors" included in our Proxy Statement. In addition, please refer to Part II, Item 5 for information relating to the Equity Compensation.

#### **ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS**

The information required by this item is incorporated by reference to all information under the caption "Related-Party Transactions" included in our Proxy Statement.

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## **ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The information required by this item is incorporated by reference to all information under the caption “Ratification of Independent Accountants” included in our Proxy Statement.

## **PART IV**

## **ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K**

### **(a) 1 & 2 Consolidated Financial Statements**

The financial statements listed in the Index to Consolidated Financial Statements, which appears on page 26 of this Annual Report, are incorporated by reference herein or filed as part of this Form 10-K.

### **3 Exhibits**

The following documents are filed as exhibits to this Form 10-K:

- 3(a) Restated Certificate of Incorporation of the Company is incorporated herein by reference to Exhibit 3(a) from the Annual Report on Form 10-K of the Company for the year ended January 31, 1989, the Certificate of Amendment to the Restated Certificate of Incorporation is incorporated herein by reference to Registration Statement on Form S-8 (File Number 33-43315) and the Certificate of Amendment to the Restated Certificate of Incorporation is incorporated hereby by reference to the Current Report on Form 8-K dated June 27, 1999.
- 3(b) By-Laws of the Company, as amended June 3, 1993, are incorporated herein by reference to Exhibit 3(b) to the Company’s Annual Report on Form 10-K for the year ended January 31, 1994. This document is located in the Securities and Exchange Commission’s Public Reference Room in Washington, D.C. in the Securities and Exchange Commission’s file no. 1-6991.
- 4(a) Form of Indenture dated as of June 1, 1985, between the Company and Bank of New York, Trustee, (formerly Boatmen’s Trust Company and Centerre Trust Company) is incorporated herein by reference to Exhibit 4(c) to Registration Statement on Form S-3 (File Number 2-97917).
- 4(b) Form of Indenture dated as of August 1, 1985, between the Company and Bank of New York, Trustee, (formerly Boatmen’s Trust Company and Centerre Trust Company) is incorporated herein by reference to Exhibit 4(c) to Registration Statement on Form S-3 (File Number 2-99162).
- 4(c) Form of Amended and Restated Indenture, Mortgage and Deed of Trust, Assignment of Rents and Security Agreement dated as of December 1, 1986, among the First National Bank of Boston and James E. Mogavero, Owner Trustees, Rewal Corporation I, Estate for Years Holder, Rewal Corporation II, Remainderman, the Company and the First National Bank of Chicago and R.D. Manella, Indenture Trustees, is incorporated herein by reference to Exhibit 4(b) to Registration Statement on Form S-3 (File Number 33-11394).
- 4(d) Form of Indenture dated as of July 15, 1990, between the Company and Harris Trust and Savings Bank, Trustee, is incorporated herein by reference to Exhibit 4(b) to Registration Statement on Form S-3 (File Number 33-35710).
- 4(e) Indenture dated as of April 1, 1991, between the Company and The First National Bank of Chicago, Trustee, is incorporated herein by reference to Exhibit 4(a) to Registration Statement on Form S-3 (File Number 33-51344).
- 4(f) First Supplemental Indenture dated as of September 9, 1992, to the Indenture dated as of April 1, 1991, between the Company and The First National Bank of Chicago, Trustee, is incorporated herein by reference to Exhibit 4(b) to Registration Statement on Form S-3 (File Number 33-51344).

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- 4(g) Indenture dated as of July 5, 2001, between the Company and Bank One Trust Company, NA, is incorporated by reference to Exhibit 4.1 to Registration Statement on Form S-3 (File Number 333-64740).
  - 4(h) Indenture dated as of December 11, 2002, between the Company and Bank One Trust Company, NA, is incorporated by reference to Exhibit 4.5 to Registration Statement on Form S-3 (File Number 333-101847).
  - + 10(a) Form of individual deferred compensation agreements is incorporated herein by reference to Exhibit 10(b) from the Annual Report on Form 10-K of the Company, as amended, for the fiscal year ended January 31, 1986. This document is located in the Securities and Exchange Commission's Public Reference Room in Washington, D.C. in the Securities and Exchange Commission's file no. 1-6991.
  - + 10(b) Wal-Mart Stores, Inc. Stock Option Plan of 1984 is incorporated herein by reference to Registration Statement on Form S-8 (File Number 2-94358).
  - + 10(c) 1991 Amendment to the Wal-Mart Stores, Inc. Stock Option Plan of 1984 is incorporated herein by reference to Exhibit 10(h) from the Annual Report on Form 10-K of the Company for the year ended January 31, 1992. This document is located in the Securities and Exchange Commission's Public Reference Room in Washington, D.C. in the Securities and Exchange Commission's file no. 1-6991.
  - + 10(d) 1993 Amendment to the Wal-Mart Stores, Inc. Stock Option Plan of 1984 is incorporated herein by reference to Exhibit 10(i) from the Annual Report on Form 10-K of the Company for the year ended January 31, 1993. This document is located in the Securities and Exchange Commission's Public Reference Room in Washington, D.C. in the Securities and Exchange Commission's file no. 1-6991.
  - + 10(e) Wal-Mart Stores, Inc. Stock Option Plan of 1994 is incorporated herein by reference to Exhibit 4(c) to Registration Statement on Form S-8 (File Number 33-55325).
  - + 10(f) Wal-Mart Stores, Inc. Director Compensation Plan is incorporated herein by reference to Exhibit 4(d) to Registration Statement on Form S-8 (File Number 333-24259).
  - + \*10(g) Wal-Mart Stores, Inc. Officer Deferred Compensation Plan as amended and restated effective March 31, 2003.
  - + 10(h) Wal-Mart Stores, Inc. Restricted Stock Plan is incorporated herein by reference to Exhibit 10(j) from the Annual Report on Form 10-K of the Company for the fiscal year ended January 31, 1997.
  - + 10(i) 1996 Amendment to the Wal-Mart Stores, Inc. Stock Option Plan of 1994 is incorporated herein by reference to Exhibit 10(j) from the Annual Report on Form 10-K of the Company for the fiscal year ended January 31, 1998.
  - + 10(j) 1997 Amendment to the Wal-Mart Stores, Inc. Stock Option Plan of 1994 is incorporated herein by reference to Exhibit 10(k) from the Annual Report on Form 10-K of the Company for the fiscal year ended January 31, 1998.
  - + \*10(k) Wal-Mart Stores, Inc. Stock Incentive Plan of 1998 as amended through January 15, 2004.
  - + \*10(l) Wal-Mart Stores, Inc. Management Incentive Plan of 1998 as amended and restated effective February 1, 2003.
  - + 10(m) The Rules of the Asda Sharesave Plan 2000 are incorporated by reference to Exhibit 10(m) from the Annual Report on Form 10-K of the Company for the fiscal year ended January 31, 2003.



- + 10(n) The Asda Colleague Share Ownership Plan 1999 is incorporated by reference to Exhibit 10(n) from the Annual Report on Form 10-K of the Company for the fiscal year ended January 31, 2003.
- \*12 Statement re computation of ratios.
- \*13 The Annual Report to Shareholders for the year ending January 31, 2004. All information incorporated by reference in Items 1, 2, 5, 6, 7 and 8 of this Annual Report on Form 10-K from the Annual Report to Shareholders for the year ended January 31, 2004 is filed with the Commission. The balance of this information in the Annual Report to Shareholders will be furnished to the Commission in accordance with Item 601(13) of Regulation S-K.
- \*21 List of the Company's Subsidiaries.
- \*23 Consent of Independent Auditors.
- \*31 Chief Executive Officer and Chief Financial Officer Section 302 Certifications.
- \*\*32 Chief Executive Officer and Chief Financial Officer Section 906 Certifications.

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\* Filed herewith as an Exhibit.

\*\* Furnished herewith as an Exhibit.

+ Management contracts and compensatory plans and arrangements required to be filed as exhibits pursuant to Item 15(c) of this report

**(b) Reports on Form 8-K.**

- (1) The Company furnished a report on Form 8-K on February 18, 2003, providing under Item 7. "Financial Statements and Exhibits" and Item 9. "Regulation FD Disclosure" a press release issued by the Company regarding its results of operations for its fourth quarter and its fiscal year ended January 31, 2003.
- (2) The Company filed a report on Form 8-K on February 19, 2003 reporting under Item 5. "Other Events and Required FD Disclosure" that Mr. Charles M. Holley became Senior Vice President and Controller of the Company effective January 21, 2003 and will be the principal accounting officer of the Company.
- (3) The Company furnished a report on Form 8-K/A on February 21, 2003 providing under Item 7. "Financial Statements and Exhibits" and Item 9. "Regulation FD Disclosure" a corrected copy of the press release issued on February 18, 2003.
- (4) The Company filed a report on Form 8-K on February 24, 2003 reporting under Item 5. "Other Events" that the Company completed the sale to Morgan Stanley & Co. Incorporated of \$1,500,000,000 aggregate principal amount of the Company's Floating Rate Notes Due 2005 pursuant to a Pricing Agreement dated as of February 18, 2003 by and between the Company and Morgan Stanley & Co. Incorporated. The Company included under Item 7. "Financial Statements and Exhibits" the material documentation regarding the sale of the Company's Floating Rate Notes Due 2005.
- (5) The Company filed a report on Form 8-K on April 29, 2003 reporting under Item 5. "Other Events" that the Company completed the underwritten offer and sale of \$1,500,000,000 aggregate principal amount of the Company's 4.55% Notes Due 2013 pursuant to a Pricing Agreement (the "Pricing Agreement") dated as of April 22, 2003 by and between the Company and Lehman Brothers Inc., Deutsche Bank Securities Inc. and Goldman, Sachs & Co., acting for themselves and as the representatives for the other underwriters named in Schedule I of the Pricing Agreement. The Company included under Item 7. "Financial Statements and Exhibits" the material documentation regarding the sale of the Company's 4.55% Notes Due 2013.
- (6) The Company furnished a report on Form 8-K on May 7, 2003 providing under Item 12. "Results of Operations and Financial Condition" a press release that was to be issued on May 8, 2003 disclosing information regarding the Company's results of operations for its fiscal quarter ended April 30, 2003.

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- (7) The Company furnished a report on Form 8-K on May 13, 2003 providing under Item 12. “Results of Operations and Financial Condition” a press release that was to be issued on May 13, 2003 disclosing information regarding the Company’s results of operations for its fiscal quarter ended April 30, 2003.
  - (8) The Company furnished a report on Form 8-K on August 7, 2003 providing under Item 12. “Results of Operations and Financial Condition” a press release issued on August 7, 2003 disclosing information regarding the Company’s expected results of operations for its fiscal quarter ended July 31, 2003.
  - (9) The Company furnished a report on Form 8-K on August 13, 2003 providing under Item 12. “Results of Operations and Financial Condition” a press release that was to be issued on August 13, 2003 disclosing information regarding the Company’s results of operations for its fiscal quarter ended July 31, 2003.
  - (10) The Company filed a report on Form 8-K on September 30, 2003 reporting under Item 5. “Other Events” that the Company completed the underwritten offer and sale of \$1,000,000,000 aggregate principal amount of the Company’s 3.375% Notes Due 2008 pursuant to a Pricing Agreement (the “Pricing Agreement”) dated as of September 25, 2003 by and between the Company and J.P. Morgan Securities Inc. and Credit Suisse First Boston LLC, acting for themselves and as the representatives for the other underwriters named in Schedule I of the Pricing Agreement. The Company included under Item 7. “Financial Statements and Exhibits” the material documentation regarding the sale of the Company’s 3.375% Notes Due 2008. In addition, the Company furnished under Item 9. “Regulation FD Disclosure” information regarding certain reclassifications and restatements of amounts included in the consolidated balance sheets and consolidated statements of results of operations of the Company and its subsidiaries.
  - (11) The Company filed a report on Form 8-K on October 7, 2003 reporting under Item 5. “Other Events” that the Company completed the underwritten offer and sale of \$1,000,000,000 aggregate principal amount of the Company’s 3.375% Notes Due 2008 pursuant to a Pricing Agreement (the “Pricing Agreement”) dated as of September 25, 2003 by and between the Company and J.P. Morgan Securities Inc. and Credit Suisse First Boston LLC, acting for themselves and as the representatives for the other underwriters named in Schedule I of the Pricing Agreement. The Company included under Item 7. “Financial Statements and Exhibits” the Opinion of Hughes & Luce, L.L.P. regarding the legality of the Company’s 3.375% Notes Due 2008.
  - (12) The Company furnished a report on Form 8-K on November 13, 2003 providing under Item 12. “Results of Operations and Financial Condition” a press release that was to be issued on November 13, 2003 disclosing information regarding the Company’s results of operations for its fiscal quarter ended October 31, 2003.

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All schedules have been omitted because the required information is not present or is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the financial statements, including the notes thereto.

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**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Wal-Mart Stores, Inc.

DATE: April 9, 2004

By /s/ H. Lee Scott, Jr.

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H. Lee Scott, Jr.  
President and Chief  
Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated:

DATE: April 9, 2004

By /s/ H. Lee Scott, Jr.

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H. Lee Scott, Jr.  
President, Chief  
Executive Officer and Director

DATE: April 9, 2004

By /s/ S. Robson Walton

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S. Robson Walton  
Chairman of the Board and  
Director

DATE: April 9, 2004

By /s/ David D. Glass

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David D. Glass  
Chairman, Executive Committee  
of the Board and Director

DATE: April 9, 2004

By /s/ Thomas M. Schoewe

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Thomas M. Schoewe  
Executive Vice President and  
Chief Financial Officer  
(Principal Financial Officer)

DATE:April 9, 2004

By /s/ Charles M. Holley, Jr.

Charles M. Holley, Jr.  
Senior Vice President and Controller  
(Principal Accounting Officer)

DATE:April 9, 2004

By /s/ James W. Breyer

James W. Breyer  
Director

DATE:April 9, 2004

By /s/ M. Michele Burns

M. Michele Burns  
Director

DATE:April 9, 2004

By /s/ Thomas M. Coughlin

Thomas M. Coughlin  
Director

DATE:April 9, 2004

By /s/ Stanley C. Gault

Stanley C. Gault  
Director

DATE:April 9, 2004

By /s/ Roland A. Hernandez

Roland A. Hernandez  
Director

DATE:April 9, 2004

By /s/ Dawn G. Lepore

Dawn G. Lepore  
Director

DATE:April 9, 2004

By /s/ John D. Opie

John D. Opie  
Director

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DATE: April 9, 2004

By /s/ J. Paul Reason

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J. Paul Reason  
Director

DATE: April 9, 2004

By /s/ Jack C. Shewmaker

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Jack C. Shewmaker  
Director

DATE: April 9, 2004

By /s/ Jose H. Villarreal

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Jose H. Villarreal  
Director

DATE: April 9, 2004

By /s/ John T. Walton

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John T. Walton  
Director

**WAL-MART STORES, INC.**  
**OFFICER DEFERRED COMPENSATION PLAN**  
**(Amended and Restated Effective March 31, 2003)**

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**WAL-MART STORES, INC.**  
**OFFICER DEFERRED COMPENSATION PLAN**

**ARTICLE I**  
**GENERAL**

**1.1 Purpose.**

The purpose of the Wal-Mart Stores, Inc. Officer Deferred Compensation Plan ("Plan") is to: (a) attract and retain the valuable services of certain officers; (b) recognize, reward, and encourage contributions by such officers to the success of Wal-Mart Stores, Inc. ("Wal-Mart") and its Related Affiliates; and (c) enable such officers to defer certain compensation and bonuses, and to be credited with earnings and Incentive Payments with respect to such amounts.

**1.2 Applicability to Prior Deferred Compensation Agreements; Effective Date.**

This Plan was initially effective February 1, 1996 with respect to compensation and bonuses deferred (and credited earnings thereon) under the Plan on or after February 1, 1996. In addition, prior to February 1, 1995, certain Eligible Officers entered into deferred compensation agreements ("Prior Agreements") with Wal-Mart containing terms similar to those contained in this Plan. Except as expressly provided herein, effective February 1, 1996 the Prior Agreements were amended and restated in the form of this Plan.

The Plan as initially adopted effective February 1, 1996, was amended from time-to-time, most recently by Amendment No. Three to the February 1, 1997 amended and restated Plan. The effective date of this amended and restated Plan is March 31, 2003, except as otherwise expressly provided herein.

**1.3 Nature of Plan.**

The Plan is intended to be (and will be administered as) an unfunded employee pension plan benefiting a select group of management or highly compensated employees under the provisions of the Employee Retirement Income Security Act of 1974 ("ERISA"). It is intended that the Plan be "unfunded" for federal tax purposes and for purposes of Title I of ERISA. Any and all payments to a Participant under the Plan will be made solely from the general assets of Wal-Mart and, to the extent such payments or benefits are attributable to services with a respective Related Affiliate or Related Affiliates, such Related Affiliate or Related Affiliates. For this purpose, payments or benefits under the Plan are deemed to be attributable to services with the last Related Affiliate by whom the Participant was employed at or prior to the time benefits become payable under Article V. A Participant's interests under the Plan do not represent or create a claim against specific assets of Wal-Mart or any Related Affiliate. Nothing herein shall be deemed to create a trust of any kind or create any fiduciary relationship between Wal-Mart, any Related Affiliate or the Committee, and a Participant, the Participant's beneficiary or any other person. To the extent any person acquires a right to receive payments from Wal-Mart or a Related Affiliate under this Plan, such right is no greater than the right of any other unsecured general creditor of Wal-Mart or such Related Affiliate.

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## ARTICLE II DEFINITIONS

### 2.1 Definitions.

Whenever used in this Plan, the following words and phrases have the meaning set forth below unless the context plainly requires a different meaning:

(a) **Account** means the bookkeeping account established by the Committee to reflect a Participant's Deferred Compensation, Deferred Bonuses, Incentive Payments, and credited earnings thereon.

(b) **Code** means the Internal Revenue Code of 1986, as amended from time to time.

(c) **Committee** means, effective October 1, 2003, the Compensation, Nominating and Governance Committee of the Board of Directors of Wal-Mart Stores, Inc.

(d) **Deferred Bonuses** means the amount deferred from bonuses payable to a Participant under the Wal-Mart Stores, Inc. Management Incentive Plan for Officers.

(e) **Deferred Compensation** means: (1) the compensation deferred by a Participant under Section 3.1 below; and (2) amounts deferred by a Participant under a Prior Agreement(s).

(f) **Disability** means a Total and Permanent Disability as from time to time defined in the Wal-Mart Stores, Inc. Profit Sharing Plan (or any successor plan thereto). A Participant must establish to the satisfaction of the Committee that a Disability exists. A Participant shall be treated as having a Disability only if such illness or injury results in the Participant's Termination of Employment.

(g) **Early Retirement** means a Participant's Termination of Employment on or after the date the Participant has been continuously employed with Wal-Mart or a Related Affiliate twenty (20) or more years.

(h) **Eligible Officer** means an individual who is a corporate officer of Wal-Mart or a Related Affiliate designated by Wal-Mart as a participating employer, and who holds the title of Vice President or above, Treasurer, Controller, or an officer title of similar rank as determined by the Committee. In addition, Eligible Officer shall include a divisional officer of Wal-Mart or a Related Affiliate designated by Wal-Mart as a participating employer, and who holds the title of Vice President or above or an officer title of similar rank as determined by the Committee. Notwithstanding the preceding sentences, the term "Eligible Officer" shall not include an individual who entered into a Prior Agreement with Wal-Mart unless such individual consents to participation in the Plan on the terms and conditions herein set forth.

(i) **Fiscal Year** means the twelve (12)-month period commencing on February 1 and ending on January 31.

(j) A Participant is deemed to have engaged in **Gross Misconduct** if the Committee determines that the Participant has engaged in conduct inimical to the best interests of Wal-Mart or any Related Affiliate. Examples of conduct inimical to the best interests of Wal-Mart or its Related Affiliates include, without limitation, disclosure of confidential information in violation of Wal-Mart's Statement of Ethics, theft, the commission of a felony or a crime of moral turpitude, gross misconduct or similar serious offenses.

(k) **Incentive Payments** means the amounts credited to a Participant's Account: (1) in accordance with Section 4.2 below; and (2) a Participant's Prior Agreement(s).

(l) **Participant** means any Eligible Officer who defers compensation or bonuses under the Plan. An individual remains a Participant in the Plan until the Participant's Plan benefits have been fully distributed.

(m) **Plan Year** means: (1) for periods before February 1, 1997, the twelve (12)-month period commencing on February 1 and ending on January 31; (2) the period from February 1, 1997 through March 31, 1997; and (3) from and after April 1, 1997, the twelve (12)-month period commencing on April 1 and ending on March 31. Notwithstanding the above, for purposes of the Incentive Payments under Section 4.2, the February 1, 1996 - January 31, 1997 Plan Year and the short February 1, 1997 - March 31, 1997 Plan Year shall be treated as one Plan Year running from February 1, 1996 - March 31, 1997.

(n) **Related Affiliates** means a business or entity that is, directly or indirectly, fifty-one percent (51%) or more owned by Wal-Mart.

(o) **Retirement** means a Participant's Termination of Employment on or after the Participant's attainment of age fifty-five (55).

(p) **Termination of Employment** means a Participant ceasing to be actively employed by Wal-Mart and its Related Affiliates. Termination of Employment does not include the transfer of a Participant from the employ of Wal-Mart to a Related Affiliate or vice versa, a transfer between Wal-Mart's Related Affiliates, or periods while a Participant is on an approved leave of absence.

(q) **Unforeseeable Emergency** means a severe financial hardship to the Participant resulting from a sudden and unexpected illness or accident of the Participant or a Participant's dependent (as defined in Code Section 152(a)), the loss of the Participant's property due to casualty, or other similar extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant. An Unforeseeable Emergency does not exist to the extent such hardship is or may be relieved:

(1) through reimbursement or compensation by insurance or otherwise;

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(2) by liquidation of the Participant's assets, to the extent the liquidation of such assets would itself not cause severe financial hardship; or

(3) by cessation of deferrals under this Plan.

The need to send a Participant's child to college or the desire to purchase a home does not constitute an Unforeseeable Emergency. The existence of an Unforeseeable Emergency will be determined by the Committee, in its sole discretion, based upon the Participant's facts and circumstance and in accordance with restrictions imposed by the Code or guidance thereunder.

(r) **Valuation Date** means the last day of each Plan Year.

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**ARTICLE III**  
**DEFERRED COMPENSATION AND BONUSES—**  
**ESTABLISHMENT OF ACCOUNTS**

**3.1 Deferred Compensation.**

For each Plan Year, each Eligible Officer may elect to defer all or a portion of what would otherwise be the Eligible Officer's federal taxable base compensation, net of employment taxes and estimated bi-weekly deductions as are determined to be in effect on the first day of the deferral period, to be paid for such Plan Year by Wal-Mart or a Related Affiliate designated by Wal-Mart as a participating employer. Amounts deferred (the "Deferred Compensation") will be deferred pro rata for each payroll period of the Plan Year. All deferral elections made under this Section 3.1 must be filed with the Committee on forms approved by the Committee. Deferral elections must be (a) filed no later than the day preceding the Plan Year for which the deferral election is to be effective; or (b) with respect to an Eligible Officer appointed during the Plan Year, within thirty (30) days of such appointment. Individuals appointed as Eligible Officers on or after April 1, 2003 and before October 1, 2003 shall have thirty (30) days from such latter date to file a deferral election for the balance of the Plan Year.

Once made for a Plan Year, a deferral election may not be revoked, changed or modified. Notwithstanding the preceding sentence, in the event an Eligible Officer ceases to be employed as an Eligible Officer, such former Eligible Officer's deferral election shall automatically cease with respect to compensation earned on or after the individual ceases to be an Eligible Officer. A deferral election for one (1) Plan Year will not automatically be given effect for a subsequent Plan Year, so that if deferrals are desired for a subsequent Plan Year, a separate election must be made by the Eligible Officer for such Plan Year. An Eligible Officer's deferral election shall remain in effect with respect to any portion of base compensation paid while on a leave of absence, and, if the leave of absence is unpaid, shall resume upon return from the leave of absence during the same Plan Year and shall continue in effect for the balance of such Plan Year.

**3.2 Deferred Bonuses.**

Each Eligible Officer may elect to defer all or a portion of the Eligible Officer's bonus (if any) for a Fiscal Year under the Wal-Mart Stores, Inc. Management Incentive Plan for Officers. All bonus deferral elections made under this Section 3.2 must be made on forms approved by the Committee, and be filed with the Committee: (a) for the 1996-1997 Fiscal Year, no later than January 31, 1996; (b) for Fiscal Years beginning on or after February 1, 1997, no later than the March 31 of the Fiscal Year for which such bonus (if any) is payable; and (c) within thirty (30) days of the individual's appointment as an Eligible Officer if the Eligible Officer is newly appointed after March 31 of the Fiscal Year. Individuals appointed as Eligible Officers on or after April 1, 2003 and before October 1, 2003 shall have thirty (30) days from such latter date to file a bonus deferral election with respect to the February 1, 2003 - January 31, 2004 Fiscal Year.

Once made for a Fiscal Year, a bonus deferral election may not be revoked, changed or modified. Notwithstanding the preceding sentence, in the event an Eligible Officer ceases to be employed as an Eligible Officer but remains employed by Wal-Mart or by one of its Related Affiliates, such former Eligible Officer's bonus deferral election shall automatically cease with

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respect to that portion of a bonus earned on or after the date the individual ceases to be an Eligible Officer. For this purpose, the portion of a bonus earned on or after ceasing to be an Eligible Officer shall be determined by multiplying the bonus by a fraction, the numerator of which is the number of calendar days in such Fiscal Year in which the individual ceased to be an Eligible Officer, and the denominator of which is the total calendar days in such Fiscal Year. Effective for those bonuses payable for Fiscal Years beginning on or after February 1, 2003, in the event an Eligible Officer ceases to be employed as an Eligible Officer due to a Termination of Employment, or if an Eligible Officer takes an approved leave of absence, such Eligible Officer's bonus deferral election shall remain in effect with respect to that portion of a bonus earned while an Eligible Officer, even if such bonus is awarded after a Termination of Employment or while an Eligible Officer is on an approved leave of absence.

With respect to those Eligible Officers appointed on or after the first day of a Plan Year and who elect to defer all or a portion of their bonus (if any) for that initial Fiscal Year, such deferral elections shall apply only to that portion of the bonus earned after the date of such election, by multiplying the bonus by a fraction, the numerator of which is the number of calendar days in such Fiscal Year in which the individual elected to defer all or a portion of their bonus after first becoming appointed as an Eligible Officer, and the denominator of which is the total calendar days in such Fiscal Year. A bonus deferral election for one (1) Fiscal Year will not automatically be given effect for a subsequent Fiscal Year, so that if deferrals are desired for a subsequent Fiscal Year, a separate election must be made by the Eligible Officer for such Fiscal Year.

### **3.3 Establishment of Accounts.**

The Deferred Compensation, Deferred Bonuses, and Incentive Payments will be credited to a bookkeeping account ("Account") established by the Committee on behalf of each Participant. The Deferred Compensation will be credited to the Participant's Account as of the last day of the Plan Year during which the Deferred Compensation would otherwise be payable to the Participant. The Deferred Bonus will be credited to the Participant's Account as of the date the bonus would have otherwise been paid in cash. The Incentive Payments will be credited to the Participant's Account as of the last day of the Plan Year specified in Section 4.2. A Participant's Account, including earnings credited thereto, will be maintained by the Committee until the Participant's Plan benefits have been paid in full.

### **3.4 Nature of Accounts.**

Each Participant's Account will be used solely as a measuring device to determine the amount to be paid a Participant under this Plan. The Accounts do not constitute, nor will they be treated as, property or a trust fund of any kind. All amounts at any time attributable to a Participant's Account will be, and remain, the sole property of Wal-Mart and its Related Affiliates. A Participant's rights hereunder are limited to the right to receive Plan benefits as provided herein. The Plan represents an unsecured promise by Wal-Mart and the applicable Related Affiliate to pay the benefits provided by the Plan.

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### **3.5 Annual Valuation of Accounts.**

Each Participant's Account will be valued annually as of each Valuation Date. The value of an Account as of any applicable Valuation Date is the sum of the Account value as of the immediately preceding Valuation Date, the Deferred Compensation, Deferred Bonuses and Incentive Payments allocated as of the applicable Valuation Date, and the equivalent of interest credited to the Account under Section 4.1 as of the applicable Valuation Date, less any distributions for Unforeseeable Emergencies since the preceding Valuation Date but on or before the applicable Valuation Date.

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**ARTICLE IV**  
**ADDITIONS TO ACCOUNTS — CREDITED EARNINGS**  
**AND INCENTIVE PAYMENTS**

**4.1 Credited Annual Earnings.**

For each Plan Year a Participant's Account will be credited with the equivalent of interest at the per annum rate established for such Plan Year by the Committee; provided, however, for the February 1, 1997 - March 31, 1997 Plan Year, the equivalent of interest shall be credited at one-sixth (1/6) of the per annum rate so established for such period. The per annum rate may be increased or decreased for any Plan Year to reflect changes in prevailing interest rates, as determined at the sole discretion of the Committee. Except for a Plan Year in which a Participant receives a distribution due to an Unforeseeable Emergency, the amount to be credited to a Participant's Account as of any Valuation Date is the sum of: (a) the applicable per annum rate multiplied by the Participant's Account value as of the immediately preceding Valuation Date; (b) fifty percent (50%) of the Participant's Deferred Compensation for the Plan Year ending on the Valuation Date multiplied by the applicable full annum rate; and (c) effective for Deferred Bonuses attributable to Fiscal Years beginning on or after February 1, 2003, a pro rata amount of interest equivalent at the applicable per annum rate based upon the number of days from the date such bonus would have otherwise been paid in cash through the applicable Valuation Date.

For a Plan Year in which a Participant receives a distribution due to an Unforeseeable Emergency, the amount to be credited to the Participant's Account as of the applicable Valuation Date is the sum of: (a) an equivalent amount of pro rata interest on the Participant's Account value as of the preceding Valuation Date based upon the number of full calendar months in the Plan Year which the Account was not reduced due to the distribution; (b) an equivalent amount of pro rata interest on the Account value immediately after the distribution based upon the number of calendar months in the Plan Year in which the Participant's Account was reduced; (c) fifty percent (50%) of the Participant's Deferred Compensation for the Plan Year ending on the Valuation Date multiplied by the applicable full annum rate; and (d) effective for Deferred Bonuses attributable to Fiscal Years beginning on or after February 1, 2003, a pro rata amount of interest equivalent at the applicable per annum rate based upon the number of days from the date such bonus would have otherwise been paid in cash through the applicable Valuation Date.

**4.2 Incentive Payments.**

The Incentive Payments described below will be credited to a Participant's Account. Incentive Payments awarded and credited to a Participant's Account under a Prior Agreement (such Incentive Payments were previously referred to as "incentive bonuses" under the Prior Agreements), and credited interest thereon, will remain credited to a Participant's Account hereunder as of January 31, 1996. Thereafter, a Participant's entitlement to an Incentive Payment will be governed by this Section 4.2, including any Incentive Payment which may be



awarded with respect to recognized Deferred Compensation (and credited earnings thereon) deferred under a Prior Agreement. Incentive Payments hereunder shall not duplicate any Incentive Payment awarded and credited under a Prior Agreement as of January 31, 1996.

(a) The Incentive Payments provided in this Section apply to a Participant's recognized Deferred Compensation and Deferred Bonuses for a Plan Year and credited Plan earnings thereon. For this purpose, Deferred Bonuses shall be treated as being "for a Plan Year" for the Plan Year in which Deferred Bonuses are allocated to a Participant's Account under Section 3.3. Incentive Payments are separately awarded based upon a Participant's recognized Deferred Compensation and Deferred Bonuses for a given Plan Year and credited Plan earnings thereon. Solely for purposes of this Section 4.2, the February 1, 1996 - January 31, 1997 Plan Year and the short February 1, 1997 - March 31, 1997 Plan Year shall be treated as one Plan Year running from February 1, 1996 - March 31, 1997.

(b) The amount of an Incentive Payment is based on the Participant's recognized Deferred Compensation and Deferred Bonuses for a Plan Year, plus credited Plan earnings on such sums through and including the Incentive Payment award date. The amount by which a Participant's Deferred Compensation and Deferred Bonuses for a Plan Year exceeds twenty percent (20%) of the Participant's base compensation will not be recognized in computing an Incentive Payment. Base compensation for this purpose means the Participant's annual base rate of compensation for such Plan Year (proportionately increased for the special Plan Year of February 1, 1996 - March 31, 1997). Credited Plan earnings on such nonrecognized Deferred Compensation or Deferred Bonuses are likewise not taken into account in determining the amount of an Incentive Payment.

(c) If a Participant remains continuously employed with Wal-Mart or its Related Affiliates for a period of ten (10) consecutive full Plan Years, beginning with the first day of the first Plan Year in which the Participant had a Deferred Compensation or Deferred Bonus election in effect under this Plan or a Prior Agreement, and ending with the last day of the tenth (10th) Plan Year of such period, an Incentive Payment will be credited to the Participant's Account as of the last day of such tenth 10th Plan Year. The Incentive Payment will be equal to twenty percent (20%) of the Participant's recognized Deferred Compensation and Deferred Bonuses for ten (10), but not less than five (5), Plan Years (i.e., the first six (6) Plan Years of such ten (10)-year period), plus credited Plan earnings thereon through the award date. For each full Plan Year thereafter in which the Participant remains continuously employed with Wal-Mart or its Related Affiliates, an Incentive Payment will be credited to the Participant's Account as of the last day of such Plan Year. Such Incentive Payment will be equal to twenty percent (20%) of the Participant's recognized Deferred Compensation and Deferred Bonuses for the first Plan Year of the five (5)-consecutive Plan Year period ending on the award date, plus credited Plan earnings thereon through the award date.

(d) If a Participant remains continuously employed with Wal-Mart or its Related Affiliates for a period of fifteen (15) consecutive full Plan Years, beginning

with the first day of the first Plan Year in which the Participant had a Deferred Compensation or Deferred Bonuses election in effect under this Plan or a Prior Agreement, and ending with the last day of the fifteenth (15th) Plan Year of such period, an Incentive Payment will be credited to the Participant's Account as of the last day of such fifteenth (15th) Plan Year. The Incentive Payment will be equal to ten percent (10%) of the Participant's recognized Deferred Compensation and Deferred Bonuses for fifteen (15), but not less than ten (10), Plan Years (i.e., the first six (6) Plan Years of such fifteen (15)-year period), plus credited Plan earnings thereon through the award date. For each full Plan Year thereafter in which the Participant remains continuously employed with Wal-Mart or its Related Affiliates, an Incentive Payment will be credited to the Participant's Account as of the last day of such Plan Year. Such Incentive Payment will be equal to ten percent (10%) of the Participant's recognized Deferred Compensation and Deferred Bonuses for the first Plan Year of a ten (10)-consecutive Plan Year period ending on the award date, plus credited Plan earnings thereon through the award date. The Incentive Payments provided in this Section 4.2(d) shall not take into account Incentive Payments credited under Section 4.2(c) or credited Plan earnings thereon.

(e) The Incentive Payments provided in this Section 4.2(e) only apply if a Participant has been a Participant under the Plan (or a Prior Agreement) for five (5) or more full Plan Years and if the Participant incurs a Retirement, Early Retirement, death or Disability before satisfaction of the ten (10)- or fifteen (15)-year periods described in Sections 4.2 (c) and (d) above, after taking into account the application of Section 4.2(f). In that event, only the Incentive Payment next to be credited (i.e., twenty percent (20%) or ten percent (10%)) will be credited to the Participant's Account as provided in this Section 4.2(e). In the event the Participant had not yet been awarded or credited with a twenty percent (20 %) Incentive Payment under Section 4.2(c), the Incentive Payment provided by this Section 4.2(e) will be based upon the ratio of (1) the number of full Plan Years worked since and including the first Plan Year in which the Participant had a Deferred Compensation or Deferred Bonus election in effect under this Plan or a Prior Agreement, to (2) ten (10), multiplied by twenty percent (20%). Such Incentive Payment will be based upon recognized amounts for the Plan Years which would otherwise have been considered in calculating the Participant's first Incentive Payment under Section 4.2(c). If the Participant has been awarded a twenty percent (20 %) Incentive Payment provided in Section 4.2 (c), the Incentive Payment provided by this Section 4.2(e) will be based upon the ratio of (1) the number of full Plan Years worked since the award date of the initial twenty percent (20%) Incentive Payment, to (2) five (5), multiplied by ten percent (10%). Such Incentive Payment will be based upon recognized amounts for the Plan Years which would otherwise have been considered in calculating the Participant's first Incentive Payment under Section 4.2(d). The Incentive Payment provided under this Section 4.2(e) will be determined and credited to the Participant's Account as of the date the Participant's Plan benefits are distributed in a lump sum payment. If, however, a Participant's benefits are to be distributed in installments, the amounts provided under this Section 4.2(e) will be determined and credited to the Participant's Account as of the January 31 on which installments are based.

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(f) The Incentive Payments provided in this Section 4.2(f) apply only with respect to those Participants who: (1) incur a Termination of Employment on or after the last day of a Fiscal Year, but before the immediately following last day of a Plan Year (e.g., on or after January 31, but before the next March 31); and (2) who, but for such Termination of Employment before the last day of a Plan Year, would have been credited with an Incentive Payment under Section 4.2(c) and/or 4.2(d). In that event, the Incentive Payments which would have been credited to the Participant's Account but for such early Termination of Employment will be credited to the Participant's Account as if the Participant had remained employed with Wal-Mart or its Related Affiliates through the last day of the Plan Year, with no reduction due to the early Termination of Employment. The Incentive Payments provided under this Section 4.2(f) will be determined and credited to the Participant's Account as of the date the Participant's Plan benefits are distributed in a lump sum payment. If, however, a Participant's benefits are to be distributed in installments, the amounts provided under this Section 4.2(f) will be determined and credited to the Participant's Account as of the January 31 on which installments are based.

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**ARTICLE V**  
**PAYMENT OF PLAN BENEFITS**

**5.1 Distribution Restrictions.**

Except in the event of a Participant's Unforeseeable Emergency, Plan benefits will not be payable to a Participant prior to the earliest occurrence of the Participant's Retirement, Early Retirement, Termination of Employment, Disability or death.

**5.2 Termination Benefits.**

(a) General.

In the event of a Participant's Termination of Employment for reasons other than the Participant's Retirement, Early Retirement, Disability or death, the Participant's Plan benefits will be distributed in a lump sum under Section 5.2(b) or Section 5.2(c), as applicable, within sixty (60) days after the end of the calendar month in which the Termination of Employment occurs; provided, however, that if the Participant's Termination of Employment occurs after the Participant has attained age fifty (50), the Participant's Plan benefits will be distributed in a lump sum under Section 5.2(b) or Section 5.2(c), as applicable, or, subject to the minimum account value restrictions of Section 5.6 below, in substantially equal annual installments under Section 5.2(e) over a period not to exceed fifteen (15) years, in accordance with the Participant's distribution election given effect under the provisions of Section 5.6 below.

(b) Termination on Last Business Day of Plan Year.

If the Participant's Termination of Employment occurs on the last business day (excluding for this purpose, Saturday and Sunday) of a Plan Year, the lump sum amount will be the sum of: (1) the value of the Participant's Account, as determined under Section 3.5, as of the Valuation Date coincident with or immediately following the Participant's Termination of Employment and (2) a pro rata amount of interest equivalent (determined at the per annum rate in effect for the Plan Year in which distribution occurs) on the amount determined in (1) through the date of distribution based upon the number of calendar days since such Valuation Date.

(c) Termination on Other Than Last Business Day of Plan Year.

If the Participant's Termination of Employment occurs on a date other than the last business day (excluding for this purpose, Saturday and Sunday) of a Plan Year, the lump sum amount will equal the sum of: (1) the value of the Participant's Account as of the Valuation Date immediately preceding Termination of Employment; (2) a pro rata amount of interest equivalent (determined at the per annum rate in effect for a Plan Year under Section 4.1) on the Participant's Account value as of such immediately preceding Valuation Date based upon the number of calendar days since such Valuation Date through the date of distribution; (3) the Participant's Deferred Compensation for the Plan Year in which Termination of Employment occurs; (4) a pro rata amount of interest equivalent

(determined by multiplying fifty percent (50%) of the amount determined in (3) by the applicable full annum rate in effect for a Plan Year under Section 4.1) based upon the number of calendar days since the Valuation Date immediately preceding Termination of Employment through the date of distribution; and (5) the Participant's Incentive Payments (if any) as provided in Section 4.2(f).

(d) Death.

In the event of a Participant's death before full payment of Plan benefits under this Section 5.2, payment shall be made (or continue to be made) to the Participant's beneficiary designated under Section 5.5 in accordance with Participant's separate election for death benefits under Section 5.6, or, with respect to those Participants in pay status who die on or after October 1, 2003, if the Participant did not designate a beneficiary under Section 5.5 or if no such beneficiary survives the Participant, payment shall be made in the form of a lump sum to the Participant's estate.

(e) Installment Distributions.

If distribution is to be made in the form of annual installments pursuant to Section 5.2(a), the Participant's installments will be based upon the value of the Participant's Account as of the January 31 coincident with or immediately following the Participant's Termination of Employment. For this purpose, the Participant's Account value as of such January 31 shall be equal to the sum of: (1) the value of the Participant's Account as of the Valuation Date immediately preceding the Participant's Termination of Employment; (2) a pro rata amount of interest equivalent (determined at the applicable per annum rate in effect for a Plan Year under Section 4.1) on the Participant's Account value as of such immediately preceding Valuation Date based upon the number of calendar days since such Valuation Date through the January 31; (3) the Participant's Deferred Compensation for the Plan Year in which Termination of Employment occurs; (4) the Participant's Incentive Payments (if any) as provided in Section 4.2(e) or Section 4.2(f); and (5) a pro rata amount of interest equivalent (determined by multiplying fifty percent (50%) of the amount determined in (3) by the applicable full annum rate in effect for a Plan Year under Section 4.1) based upon the number of calendar days since the Valuation Date immediately preceding Termination of Employment through such January 31.

Notwithstanding the preceding paragraph, if the Participant's Termination of Employment occurs on a January 31 (excluding for this purpose, Saturday and Sunday), the Participant's installments will be based upon the sum of: (1) the value of the Participant's Account as of the Valuation Date immediately following the Participant's Termination of Employment; (2) a pro rata amount of interest equivalent (determined at the applicable per annum rate in effect for a Plan Year under Section 4.1) on the Participant's Account value as of such immediately following Valuation Date based upon the number of calendar days since such Valuation Date through the following January 31; and (3) the Participant's Incentive Payments (if any) as provided in Section 4.2(e) or Section 4.2(f).

The Plan benefits determined above will be paid in equal annual installments in an amount which would fully amortize a loan equal to such Plan benefits over the period covered by the installment period (such period commencing on the February 1 following the January 31 on

which the Participant's Account is valued under this Section), with interest calculated at the per annum rate in effect for the Plan Year in which the Participant's Termination of Employment occurs. The first installment will be paid as of the January 31 following the Participant's Termination of Employment, and continue on each successive January 31 until the Participant's benefits are distributed in full. For purposes of the preceding sentence, it is expressly provided that, if a Participant's Termination of Employment occurs on a January 31, the first installment will be paid on the next-following January 31.

### **5.3 Retirement, Early Retirement, and Disability Benefits.**

#### **(a) General.**

In the event of a Participant's Termination of Employment due to the Participant's Retirement, Early Retirement or Disability, the Participant's Plan benefits will be distributed in a lump sum or in substantially equal annual installments over a period not to exceed fifteen (15) years, subject to the minimum account value restrictions of Section 5.6 below and in accordance with the Participant's distribution election given effect under the provisions of Section 5.6 below.

#### **(b) Lump Sum Distributions.**

If distribution is to be made in the form of a lump sum, the Participant's Plan benefits will be distributed within sixty (60) days after the end of the calendar month in which the Retirement, Early Retirement or Disability occurs. If the Participant's Retirement, Early Retirement or Disability occurs on the last business day (excluding for this purpose Saturday and Sunday) of a Plan Year, the lump sum amount will be the sum of: (1) the value of the Participant's Account, as determined under Section 3.5, as of the Valuation Date coincident with or immediately following the Participant's Retirement, Early Retirement or Disability; (2) a pro rata amount of interest equivalent (determined at the per annum rate in effect for the Plan Year in which distribution occurs) on the amount determined in (1) through the date of distribution based upon the number of calendar days since such Valuation Date; and (3) the Participant's Incentive Payment (if any) as provided in Section 4.2(e).

If the Participant's Retirement, Early Retirement or Disability occurs on a date other than the last business day (excluding for this purpose Saturday and Sunday) of a Plan Year, the lump sum amount will equal the sum of: (1) the value of the Participant's Account as of the Valuation Date immediately preceding Retirement, Early Retirement or Disability; (2) a pro rata amount of interest equivalent (determined at the per annum rate in effect for a Plan Year under Section 4.1) on the Participant's Account value as of such immediately preceding Valuation Date based upon the number of calendar days since such Valuation Date through the date of distribution; (3) the Participant's Deferred Compensation for the Plan Year in which Retirement, Early Retirement or Disability occurs; (4) the Participant's Incentive Payments (if any) as provided in Section 4.2(e) or Section 4.2(f); and (5) a pro rata amount of interest equivalent (determined by multiplying fifty percent (50%) of the amount determined in (3) by the applicable full annum rate in effect for a Plan Year under Section 4.1) based upon the number of calendar days since the Valuation Date immediately preceding Retirement, Early Retirement or Disability through the date of distribution.

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(c) Installment Distributions.

If distribution is to be made in the form of annual installments, the Participant's installments will be based upon the value of the Participant's Account as of the January 31 coincident with or immediately following the Participant's Retirement, Early Retirement or Disability. For this purpose, the Participant's Account value as of such January 31 shall be equal to the sum of: (1) the value of the Participant's Account as of the Valuation Date immediately preceding the Participant's Retirement, Early Retirement or Disability; (2) a pro rata amount of interest equivalent (determined at the applicable per annum rate in effect for a Plan Year under Section 4.1) on the Participant's Account value as of such immediately preceding Valuation Date based upon the number of calendar days since such Valuation Date through the January 31; (3) the Participant's Deferred Compensation for the Plan Year in which Retirement, Early Retirement or Disability occurs; (4) the Participant's Incentive Payments (if any) as provided in Section 4.2(e) or Section 4.2(f); and (5) a pro rata amount of interest equivalent (determined by multiplying fifty percent (50%) of the amount determined in (3) by the applicable full annum rate in effect for a Plan Year under Section 4.1) based upon the number of calendar days since the Valuation Date immediately preceding Retirement, Early Retirement or Disability through such January 31.

Notwithstanding the preceding paragraph, if the Participant's Retirement, Early Retirement or Disability occurs on a January 31 (excluding for this purpose, Saturday and Sunday), the Participant's installments will be based upon the sum of: (1) the value of the Participant's Account as of the Valuation Date immediately following the Participant's Retirement, Early Retirement or Disability; (2) a pro rata amount of interest equivalent (determined at the applicable per annum rate in effect for a Plan Year under Section 4.1) on the Participant's Account value as of such immediately following Valuation Date based upon the number of calendar days since such Valuation Date through the following January 31; and (3) the Participant's Incentive Payments (if any) as provided in Section 4.2(e) or Section 4.2(f).

The Plan benefits determined above will be paid in equal annual installments in an amount which would fully amortize a loan equal to such Plan benefits over the period covered by the installment period (such period commencing on the February 1 following the January 31 on which the Participant's Account is valued under this Section), with interest calculated at the per annum rate in effect for the Plan Year in which the Participant's Retirement, Early Retirement or Disability occurs. The first installment will be paid as of the January 31 following the Participant's Retirement, Early Retirement or Disability, and continue on each successive January 31 until the Participant's benefits are distributed in full. For purposes of the preceding sentence, it is expressly provided that, if a Participant's Retirement, Early Retirement or Disability occurs on a January 31, the first installment will be paid on the next-following January 31.

(d) Death.

In the event of a Participant's death before full payment of Plan benefits under this Section 5.3, payment shall be made (or continue to be made) to the Participant's beneficiary designated under Section 5.5 in accordance with Participant's separate election for death benefits under Section 5.6, or, with respect to those Participants in pay status who die on or after October 1, 2003, if the Participant did not designate a beneficiary under Section 5.5 or if no such beneficiary survives the Participant, payment shall be made in the form of a lump sum to the Participant's estate.

**5.4 Death Benefits.**

(a) General.

In the event of a Participant's Termination of Employment due to the Participant's death, the Participant's Plan benefits will be distributed in a lump sum or, subject to the minimum account value restrictions of Section 5.6 below, in substantially equal annual installments over a period not to exceed fifteen (15) years, in accordance with the Participant's distribution election given effect under the provisions of Section 5.6 below. Amounts will be distributed to the beneficiary designated under 5.5 below.

(b) Lump Sum Distributions.

If distribution is to be made in the form of a lump sum, the Participant's Plan benefits will be distributed within sixty (60) days after the end of the calendar month in which the Participant's death occurs. If the Participant's death occurs on the last business day (excluding for this purpose Saturday and Sunday) of a Plan Year, the lump sum amount will be the sum of: (1) the value of the Participant's Account, as determined under Section 3.5, as of the Valuation Date coincident with or immediately following the Participant's death; (2) a pro rata amount of interest equivalent (determined at the per annum rate in effect for the Plan Year in which distribution occurs) on the amount determined in (1) through the date of distribution based upon the number of calendar days since such Valuation Date; and (4) the Participant's Incentive Payment (if any) as provided in Section 4.2(e).

If the Participant's death occurs on a date other than the last business day (excluding for this purpose Saturday and Sunday) of a Plan Year, the lump sum amount will equal the sum of: (1) the value of the Participant's Account as of the Valuation Date immediately preceding the Participant's death; (2) a pro rata amount of interest equivalent (determined at the per annum rate in effect for a Plan Year on the Participant's Account value as of the immediately preceding Valuation Date based upon the number of full calendar days since such Valuation Date through date of distribution; and (3) the Participant's Incentive Payments (if any) as provided in Section 4.2(e) or Section 4.2(f).



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(c) Installment Distributions.

If distribution is to be made in the form of annual installments, the installments will be based upon the value of the Participant's Account as of the January 31 coincident with or immediately following the Participant's death. For this purpose, a Participant's Account value as of such January 31 shall be determined in accordance with the manner specified in Section 5.3(c). The Plan benefits determined above will be paid in equal annual installments in an amount which would fully amortize a loan equal to such Plan benefits over the period covered by the installment period (such period commencing on the February 1 following the January 31 on which the Participant's Account is valued under this Section), with interest calculated at the per annum rate in effect for the Plan Year in which the Participant's death occurs. The first installment will be paid as of the January 31 coincident with or following the Participant's death; and continue on each successive January 31 until the Participant's benefits are distributed in full. For purposes of the preceding sentence, it is expressly provided that if a Participant dies on a January 31, the first installment will be paid on the next-following January 31.

**5.5 Designation of Beneficiary.**

A Participant may, by written or electronic instrument delivered to the Committee in the form prescribed by the Committee, designate primary and contingent beneficiaries to receive any benefit payments which may be payable under this Plan following the Participant's death, and may designate the proportions in which such beneficiaries are to receive such payments. A Participant may change such designations from time to time and the last written designation filed with the Committee prior to the Participant's death will control. In the event no beneficiary is designated, or if the designated beneficiary predeceases the Participant, payment shall be payable to the Participant's estate. For this purpose, a Participant's most recent written beneficiary designation properly filed under a Prior Agreement shall continue to be given effect until otherwise modified in accordance with the provisions of this Section.

**5.6 Form of Distribution.**

If a Participant's Termination of Employment is due to the Participant's Retirement, Early Retirement Disability or death, or occurs after the Participant has attained age fifty (50), distribution may be made, at the Participant's election, in a lump sum or in substantially equal annual installments over a period not to exceed fifteen (15) years; provided, however, with respect to Terminations of Employment occurring on or after October 1, 2003, an installment election will be given effect only if, as of the date on which any lump sum payment would be valued, the participant's Account is valued at greater than fifty-thousand dollars (\$50,000). Any Participant whose Account is valued at less than fifty-thousand dollars as of the date on which any lump sum payment would be valued shall be defaulted to a lump sum payment. A Participant may file a distribution election with the Committee on forms prescribed by the Committee. A distribution election, once given effect under this Section 5.6, will apply to the Participant's total Plan benefits. A Participant may, however, file a separate election for death benefits payable under Section 5.2 - 5.4. To be given effect under this Section 5.6, any distribution election for benefits payable under Section 5.2 or Section 5.3 to the Participant must have been filed with the Committee at least six (6) full calendar months before the occurrence of

an event entitling the Participant to a distribution thereunder. If a Participant's distribution election has not been on file with the Committee for the full six (6)-month period, it will not be recognized or given effect by the Plan. In that event, distribution will be made in accordance with the Participant's most recent distribution election which was filed with the Committee at least six (6) months prior to the Participant's Retirement, Early Retirement, Disability, or Termination of Employment after age fifty (50). The six (6)-month period provided above shall not apply to death benefits payable under Section 5.2 - 5.4. For purposes of this Section 5.6, a Participant's last distribution election filed with Wal-Mart under a Prior Agreement will be given effect for the Participant's total Plan benefits until superseded or amended by the Participant in accordance with the provisions of this Section, except that death benefits under Section 5.4 will be paid in a lump sum unless an affirmative election to the contrary is filed by the Participant. If the Participant has not been a Participant in the Plan for at least six (6) months prior to the Participant's Retirement, Early Retirement Disability, or Termination of Employment after age fifty (50), the Participant's initial distribution election filed with Wal-Mart will be given effect. For purposes of this Section 5.6, it is expressly provided that any installment election which would be given effect hereunder for benefits payable under Section 5.3 shall automatically be given effect for Participants who incur a Termination of Employment on or after June 1, 1999 and after attaining age fifty (50), without the consent or ratification of any such Participant.

#### **5.7 Reductions Arising from a Participant's Gross Misconduct.**

A Participant's Plan benefits are contingent upon the Participant not engaging in Gross Misconduct while employed with Wal-Mart or any Related Affiliate, or during such additional period as provided in Wal-Mart's Statement of Ethics. Notwithstanding anything herein to the contrary, in the event the Committee determines that the Participant has engaged in Gross Misconduct during the prescribed period: (a) the Participant shall forfeit all Incentive Payments, and credited Plan earnings thereon; and (b) earnings credited to the Participant's Account derived from Deferred Compensation and Deferred Bonuses shall be recalculated for each Plan Year to reflect the amount which would otherwise have been credited if the applicable per annum rate were fifty percent (50%) of the per annum' rate in effect for such Plan Year. Under no circumstances will a Participant forfeit any portion of the Participant's Deferred Compensation or Deferred Bonuses. Any payments received hereunder by a Participant (or the Participant's beneficiary) are contingent upon the Participant not engaging (or not having engaged) in Gross Misconduct while employed with Wal-Mart or any Related Affiliate, or during such additional period as provided in Wal-Mart's Statement of Business Ethics. If the Committee determines, after payment of amounts hereunder, that the Participant has engaged in Gross Misconduct during the prescribed period, the Participant (or the Participant's beneficiary) shall repay to Wal-Mart, or the applicable Related Affiliate, any amount in excess of that to which the Participant is entitled under this Section 5.7.

#### **5.8 Distributions for Unforeseeable Emergencies.**

In the event of an Unforeseeable Emergency, the Committee, in its sole and absolute discretion and upon written application of such Participant, may direct immediate distribution of all or a portion of the Participant's Plan benefits. The Committee will permit distribution because of an Unforeseeable Emergency only to the extent reasonably needed to satisfy the emergency need.

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Notwithstanding anything herein to the contrary, the provisions of this paragraph apply in the event a Participant receives a distribution under this Section 5.8, the Participant's Termination of Employment for any reason occurs on a date other than the last business day of a Fiscal Year (excluding for this purpose Saturday or Sunday), and the Participant's benefits hereunder for any reason are paid in the same Fiscal Year in which the Participant received a distribution for Unforeseeable Emergencies under this Section 5.8. In that event, the Participant's lump sum amount calculated under Sections 5.2, 5.3, or 5.4 will be reduced by the amount distributed under this Section 5.8 and the applicable interest equivalent will be calculated in a manner consistent with Section 4.1.

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**ARTICLE VI  
ADMINISTRATION**

**6.1 General.**

The Committee is responsible for the administration of the Plan and is granted the following rights and duties:

(a) The Committee shall have the exclusive duty, authority and discretion to interpret and construe the provisions of the Plan, to determine eligibility for and the amount of any benefit payable under the Plan, and to decide any dispute which may rise regarding the rights of Participants (or their beneficiaries) under this Plan;

(b) The Committee shall have the authority to adopt, alter, and repeal such administrative rules, regulations, and practices governing the operation of the Plan as it shall from time to time deem advisable;

(c) The Committee may appoint a person or persons to act on behalf of, or to assist, the Committee in the administration of the Plan, establishment of forms (including electronic forms) desirable for Plan operation, and such other matters as the Committee deems necessary or appropriate;

(d) The decision of the Committee in matters pertaining to this Plan shall be final, binding, and conclusive upon Wal-Mart, any Related Affiliate, the Participant, the Participant's beneficiary, and upon any person affected by such decision, subject to the claims procedure set forth in Article VII; and

(e) In any matter relating solely to a Committee member's individual rights or benefits under this Plan, such Committee member shall not participate in any Committee proceeding pertaining to, or vote on, such matter.

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**ARTICLE VII**  
**CLAIMS PROCEDURE**

**7.1 General.**

Any claim for benefits under the Plan must be filed by the Participant or beneficiary (“claimant”) in writing with the Committee or its delegate. If a claim for a Plan benefit is wholly or partially denied, notice of the decision will be furnished to the claimant by the Committee or its delegate within a reasonable period of time, not to exceed sixty (60) days, after receipt of the claim by the Committee or its delegate. Any claimant who is denied a claim for benefits will be furnished written notice setting forth:

- (a) the specific reason or reasons for the denial;
- (b) specific reference to the pertinent Plan provision upon which the denial is based;
- (c) a description of any additional material or information necessary for the claimant to perfect the claim; and
- (d) an explanation of the Plan’s claim review procedure.

**7.2 Appeals Procedure.**

To appeal a denial of a claim, a claimant or the claimant’s duly authorized representative:

- (a) may request a review by written application to the Committee not later than sixty (60) days after receipt by the claimant of the written notification of denial of a claim;
- (b) may review pertinent documents; and
- (c) may submit issues and comments in writing.

A decision on review of a denied claim will be made by the Committee not later than sixty (60) days after receipt of a request for review, unless special circumstances require an extension of time for processing, in which case a decision will be rendered within a reasonable period of time, but not later than one hundred twenty (120) days after receipt of a request for review. The decision on review will be in writing and shall include the specific reasons for the denial and the specific references to the pertinent Plan provisions on which the decision is based.

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**ARTICLE VIII**  
**MISCELLANEOUS PROVISIONS**

**8.1 Amendment, Suspension or Termination of Plan.**

Wal-Mart, by action of the Committee, reserves the right to amend, suspend or to terminate the Plan in any manner that it deems advisable. Notwithstanding the preceding sentence, the Plan may not be amended, suspended or terminated to cause a Participant to forfeit the Participant's then-existing Account.

**8.2 Non-Alienability.**

The rights of a Participant to the payment of benefits as provided in the Plan may not be assigned, transferred, pledged or encumbered or be subject in any manner to alienation or anticipation. No Participant may borrow against the Participant's interest in the Plan. No interest or amounts payable under the Plan may be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, charge, garnishment, execution or levy of any kind, whether voluntary or involuntary, including but not limited to, any liability which is for alimony or other payments for the support of a spouse or former spouse, or for any other relative of any Participant.

**8.3 No Employment Rights.**

Nothing contained herein shall be construed as conferring upon the Participant the right to continue in the employ of Wal-Mart or any of its Related Affiliates as an officer or in any other capacity.

**8.4 No Right to Bonus.**

Nothing contained herein shall be construed as conferring upon the Participant the right to receive a bonus from the Wal-Mart Stores, Inc. Management Incentive Plan for Officers. A Participant's entitlement to such a bonus is governed solely by the provisions of that plan.

**8.5 Withholding and Employment Taxes.**

To the extent required by law, Wal-Mart, or a Related Affiliate will withhold from a Participant's current compensation or from Plan distributions, as the case may be, such taxes as are required to be withheld for federal, state or local government purposes.

**8.6 Income and Excise Taxes.**

The Participant (or the Participant's beneficiaries or estate) is solely responsible for the payment of all federal, state and local income and excise taxes resulting from the Participant's participation in this Plan.

## **8.7 Successors and Assigns.**

The provisions of this Plan are binding upon and inure to the benefit of Wal-Mart and each Related Affiliate which is a participating employer, their successors and assigns, and the Participant, the Participant's beneficiaries, heirs, and legal representatives.

## **8.8 Governing Law.**

This Plan shall be subject to and construed in accordance with the laws of the State of Arkansas to the extent not preempted by federal law.

# **WAL-MART STORES, INC. STOCK INCENTIVE PLAN OF 1998 As amended January 15, 2004.**

**1.1 Purpose.** Wal-Mart Stores, Inc. ("Wal-Mart") believes it is important to provide incentives to Wal-Mart's Associates and its Non-Associate Directors through participation in the ownership of Wal-Mart and otherwise. This Wal-Mart Stores, Inc. Stock Incentive Plan of 1998 (the "Plan") is established to provide incentives to certain Associates and the Non-Associate Directors to enhance their job performance, to motivate them to remain or become associated with Wal-Mart and its Affiliates, and to increase the success of Wal-Mart. The Plan is not limited to executive officers or directors of Wal-Mart, but will be available to provide incentives to any Associate that the Committee believes has made or may make a significant contribution to Wal-Mart or an Affiliate of Wal-Mart.

## **DEFINITIONS**

**2.1 "Affiliate"** means any corporation, company limited by shares, partnership, limited liability company, business trust, other entity or other business association that is now or hereafter controlled by Wal-Mart.

**2.2 "Associate"** means any person employed by Wal-Mart or any Affiliate.

**2.3 "Board"** means the Board of Directors of Wal-Mart.

**2.4 "Cause"** means, in the context of termination of an Associate's employment, the Associate's commission of any act deemed inimical to the best interest of Wal-Mart or any Affiliate or failure to perform satisfactorily his or her assigned duties, each as determined in the sole discretion of the Committee.

**2.5 "Code "** means the Internal Revenue Code of 1986, as amended.

**2.6 "Committee "** means (1) as to Associates who are Section 16 Persons and as to Performance Based Awards, the Compensation and Nominating Committee of the Board and (2) as to all other Associates, the committee appointed by the Board to administer the Plan or a particular feature of the Plan.

**2.7 "Continuous Status as an Associate"** means the absence of any interruption or termination of the employment relationship between an Associate and Wal-Mart or an Affiliate. Continuous Status as an Associate shall not be considered interrupted in the case of: (i) sick leave; (ii) military leave; or (iii) any other leave of absence approved by Wal-Mart, provided that leave does not exceed one year, unless re-employment upon the expiration of that leave is guaranteed by contract or law or unless provided otherwise by a policy of Wal-Mart.

**2.8 "Delaware Law"** means the Delaware General Corporation Law, as amended.

**2.9 "Exchange Act"** means the Securities Exchange Act of 1934, as amended, and the rules and regulations adopted thereunder.

**2.10 "Fair Market Value"** means, as of any date, the composite closing sales price for a Share (a) as noted in the Wall Street Journal (or if no trading in Shares occurred on that date, on the last day on which Shares were traded) or (b) if the Shares are not listed for trading, the value of a Share as determined in good faith by Committee.

**2.11 "Incentive Stock Option"** means an Option intended to qualify as an incentive stock option within the meaning of Code Section 422.

**2.12 "Non-Associate Director"** means a director of Wal-Mart who is not an Associate.

**2.13 "Nonqualified Option"** means an Option not intended to qualify as an Incentive Stock Option.

**2.14 Notice of Plan Award** means the agreement or other document governing any grant of Restricted Stock, Restricted Stock Rights or Stock Appreciation Rights.

**2.15 "NYSE"** means the New York Stock Exchange or any successor organization thereto.

**2.16 "Option"** means a stock option to acquire a certain number of the Subject Shares granted pursuant to the Plan.

**2.17 "Option Notification"** means the agreement or other document governing any Incentive Stock Option or Nonqualified Option granted under the Plan.

**2.18 “Optioned Stock”** means the Shares subject to an Option.

**2.19 “Optionee”** means an Associate or other person who receives an Option.

**2.20 “Parent/Subsidiary Corporation”** means a “parent corporation” (within the meaning of Code Section 424(e)) or a “subsidiary corporation” (within the meaning of Code Section 424(f)) of Wal-Mart.

**2.21 “Performance Based Award”** means a Plan Award that the Committee designates as a “Performance Based Award” and that is granted to a “covered employee” (as defined in Code Section 162(m)(3)) or to an Associate that the Committee determines might become a “covered employee.”

**2.22 “Plan”** means this Wal-Mart Stores, Inc. Stock Incentive Plan of 1998, as amended from time to time.

**2.23 “Plan Award”** means any Option, Restricted Stock Award, Restricted Stock Right Award or Stock Appreciation Right.

**2.24 “Recipient”** means an Associate or Non-Associate Director who has received a Plan Award.

**2.25 “Restricted Stock”** means Shares awarded to a Recipient pursuant to a Restricted Stock Award that are subject to a Restriction and all non-cash proceeds of those Shares that are subject to a Restriction.

**2.26 “Restricted Stock Award”** means the award of Shares subject to one or more Restrictions under the Restricted Stock feature of the Plan and the terms and conditions of that award.

**2.27 “Restricted Stock Right”** means a right awarded to an Associate that, subject to Section 8.2, may result in Associate’s ownership of Shares upon the completion of, but not before, the Vesting Period.

**2.28 “Restricted Stock Right Award”** means the award of Restricted Stock Rights in accordance with the terms of the Plan and such other terms and conditions described in the Notice of Plan Award.

**2.29 “Restriction”** means the contractual condition(s) contained in a Restricted Stock Award, Restricted Stock Right Award or the Plan that if not met will result in the forfeiture to Wal-Mart of some or all of the Shares issued to the Recipient pursuant to that Restricted Stock Award and the non-cash proceeds of those Shares or in the forfeiture of that Restricted Stock Right awarded to and held by an Associate.

**2.30 “Section 16 Person”** means any Associate who is required to file reports under Section 16 of the Exchange Act and the Non-Associate Directors.

**2.31 “Securities Act”** means the Securities Act of 1933, as amended and the rules and regulations adopted thereunder.

**2.32 “Shares”** means shares of the Common Stock, \$.10 par value per share, of Wal-Mart.

**2.33 “Stock Appreciation Right”** means a right granted to a Recipient pursuant to the Stock Appreciation Rights feature of the Plan.

**2.34 “Subject Shares”** means the 80,000,000 Shares reserved for issuance under the Plan.

**2.35 “Vesting Period”** means the period described in the Notice of Plan Award during which an Associate must remain continuously employed in order to qualify for Shares or Subject Shares, as the case may be, under the terms of the Plan and any Restricted Stock Right Award.

## **SHARES SUBJECT TO THE PLAN**

**3.1** The Subject Shares may be authorized, but unissued Shares or treasury Shares held by Wal-Mart or an Affiliate. Shares reserved for issuance pursuant to an Option that expire, are forfeited or otherwise are no longer exercisable or that are reacquired by Wal-Mart pursuant to the terms of the Plan or a Plan Award, may be the subject of a new Plan Award. No fractional shares may be issued under the Plan. If a stock split, reverse stock split, stock dividend or other combination occurs as to the Shares, the number of Shares reserved for issuance pursuant to the Plan shall be proportionally increased or decreased, as the case may be.

Notwithstanding the foregoing, (1) Shares withheld from Restricted Stock Awards in order to satisfy tax withholding requirements, (2) shares already owned



by an Optionee and used pay all or a portion of the exercise price of Shares subject to an Option, and (3) any other shares reacquired by Wal-Mart after such Shares have been issued (or, in the case of Open Market Shares, have been delivered), other than Restricted Stock that is forfeited or reacquired by Wal-Mart without lapse of the Restrictions, shall not become Subject Shares to the extent such Shares are withheld, tendered, or reacquired by Wal-Mart after June 5, 2008.

## **ADMINISTRATION**

**4.1** The Committee will administer the Plan and will grant all Plan Awards. The Plan and Plan Awards to Section 16 Persons shall be administered by the Committee in compliance with Rule 16b-3 adopted under the Exchange Act ("Rule 16b-3"). With respect to Performance Based Awards, the Plan shall be administered by a committee of the Board comprised solely of two or more outside directors, as defined in Code Section 162(m)(4)(C).

**4.2** The Committee shall have these duties as to the Plan:

- (a) to establish rules, procedures, and forms governing the Plan;
- (b) to interpret and apply the provisions of the Plan and any Plan Award;
- (c) to recommend amendments of the Plan to the Board;
- (d) to determine those Associates and Non-Associate Directors who will be Recipients and what Plan Awards will be made to them;
- (e) to set the terms and conditions of any Plan Award;
- (f) to determine the Fair Market Value of the Shares; and
- (g) to amend the terms of any Plan Award or to waive any conditions or obligations of a Recipient under or with respect to any Plan Award.

**4.3** Except for the administration of Performance Based Awards and matters under the Plan affected by Section 16 of the Exchange Act and the rules adopted thereunder, the Committee may delegate its duties under the Plan to one or more administrators, who may be Associates of Wal-Mart.

**4.4** If the Committee intends that a Plan Award qualify for the performance-based compensation exception under Code Section 162(m)(4)(C), the Committee will exercise its discretion to qualify the Plan Award for that exception. All actions taken or determinations made by the Committee, in good faith, with respect to the Plan, a Plan Award or any Notification shall not be subject to review by anyone, but shall be final, binding and conclusive upon all persons interested in the Plan or any Plan Award.

## **PARTICIPATION**

**5.1** All Associates whom the Committee determines have the potential to contribute significantly to the success of the Company, as well as Non-Associate Directors, may participate in the Plan, although Non-Associate Directors may not receive Incentive Stock Options. An Associate or Non-Associate Director may be granted one or more Plan Awards, unless prohibited by applicable law and subject to the limitations under Code Section 422 with respect to Incentive Stock Options.

## **STOCK OPTIONS**

**6.1 Term of Options .** Wal-Mart may grant Options covering the Subject Shares to Associates or Non-Associate Directors. The term of each Option shall be the term stated in the Option Notification; provided, however, that in the case of an Incentive Stock Option, the term shall be no more than 10 years from the date of grant unless the Incentive Stock Option is granted to an Optionee who, at the time of the grant, owns stock representing more than 10% of the voting power of all classes of stock of Wal-Mart or any Parent/Subsidiary Corporation, in which case the term may not exceed 5 years from the date of grant.

Each Option shall be a Nonqualified Option unless designated otherwise in the Option Notification. Notwithstanding the designation of an Option, if the aggregate Fair Market Value of Shares subject to Incentive Stock Options that are exercisable for the first time by an Optionee during a calendar year exceeds \$100,000 (whether due to acceleration of exercisability, miscalculation or error), the excess Options shall be treated as Nonqualified Options.

**6.2 Option Exercise Price and Consideration.** The per Share exercise price of an Option shall be determined by the Committee in its discretion, except that the per Share exercise price for an Incentive Stock Option shall be 100% of the Fair Market Value of a Share on the date of grant unless the Associate to whom the Incentive Stock Option is granted owns stock representing more than 10% of the voting power of all classes of stock of Wal-Mart or any Parent/Subsidiary Corporation at the time of the grant, in which case the per Share exercise price shall be no less than 110% of the Fair Market Value per Share on the date of grant. The type of consideration in which the exercise price of an Option is to be paid shall be determined by the Committee in its discretion, and, in the case of an Incentive Stock Option, shall be determined at the time of grant.

**6.3 Exercise of Options.** An Option shall be deemed to be exercised when the person entitled to exercise the Option gives notice of exercise to Wal-Mart in accordance with the Option's terms and Wal-Mart receives full payment for the Shares as to which the Option is exercised or other provision for such payment is made in accordance with procedures established by the Committee from time to time.

**6.4 Termination of Employment.** If an Optionee's Continuous Status as an Associate is terminated, the Optionee may, subject to Wal-Mart's right to terminate the Associate for Cause, exercise Options vested as of the termination date to the extent set out in Optionee's Option Notification. Incentive Stock Options may be exercised only within 60 days (or other period of time determined by the Committee at the time of grant of the Option and not exceeding 3 months) after the date of the termination (but in no event later than the expiration date of the term of that Option as set forth in the Option Notification), and only to the extent that Optionee was entitled to exercise the Incentive Stock Option at the date of that termination. To the extent the Optionee is not entitled to or does not exercise an Option at the date of that termination or within the time specified herein or in the Option Notification, the Option shall terminate. During a period for which the Optionee is subject to administrative suspension from employment, the Optionee's right to exercise Options will be suspended.

**6.5 Disability of Optionee.** Notwithstanding the provisions of the immediately preceding paragraph, in the case of an Optionee's Incentive Stock Option, if the Optionee's Continuous Status as an Associate is terminated as a result of his or her total and permanent disability (as defined in Code Section 22(e)(3)), Optionee may, but only within 12 months from the date of that termination (but in no event later than the expiration date of the term of that Option as set forth in the Option Notification), exercise an Incentive Stock Option to the extent otherwise entitled to exercise it at the date of that termination. To the extent the Optionee is not entitled to exercise an Incentive Stock Option at the date of termination, or if Optionee does not exercise that Incentive Stock Option to the extent so entitled within the time specified herein, the Incentive Stock Option shall terminate.

**6.6 Reload Options.** If an Optionee exercises an Option (the "Original Option") while the Optionee is an Associate or a Non-Associate Director by paying all or a portion of the exercise price of the Shares subject to the Original Option by tendering to Wal-Mart Shares owned by that person, an Option to purchase the number of Shares used for this purpose by the Associate or the Non Associate Director, as the case may be (the "Reload Option") may, at the Committee's discretion, be granted to the Associate, as a part of the Original Option, as evidenced in the Optionee's Option Notification. The Reload Option may be exercised at any time during the term of the Original Option, under the terms and conditions, and subject to any limitations as may be placed on that exercisability in the Notification.

**6.7 Non-transferability of Options .** An Option may not be sold, pledged, assigned, hypothecated, transferred or disposed of in any manner except by testamentary devise or by the laws of descent or distribution or in those circumstances expressly permitted by the Committee.

**6.8 Withholding.** The Committee may withhold any amounts necessary to collect any withholding taxes, or Shares up to the minimum number required for tax withholding, upon the taxable event relating to an Option.

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## RESTRICTED STOCK

**7.1 Grant of Restricted Stock Awards.** Wal-Mart may make Restricted Stock Awards to those Associates or Non-Associate Directors the Committee may determine in its sole discretion. Restricted Stock Awards may be made with respect to up to an aggregate of 16,000,000 Subject Shares. Each Restricted Stock Award shall have those terms and conditions that are expressly set forth in, or are required by, the Plan and any other terms and conditions as the Committee making the Restricted Stock Award may determine in its discretion.

**7.2 Dividend Receipt; Voting.** While any Restriction applies to any Recipient's Restricted Stock, (i) the Recipient shall receive the dividends paid on the Restricted Stock and shall not be required to return those dividends to Wal-Mart in the event of the forfeiture of the Restricted Stock, (ii) the Recipient shall receive the proceeds of the Restricted Stock in any stock split, reverse stock split, recapitalization, or other change in the capital structure of Wal-Mart, which proceeds shall automatically and without need for any other action become Restricted Stock and be subject to all Restrictions then existing as to the Recipient's Restricted Stock and (iii) the Recipient shall be entitled to vote the Restricted Stock during the Restriction period.

**7.3 Issuance of Restricted Stock.** The Restricted Stock will be issued to each Recipient subject to the understanding that while any Restriction applies to the Restricted Stock, the Recipient shall not have the right to sell, transfer, assign, convey, pledge, hypothecate, grant any security interest in or mortgage on, or otherwise dispose of or encumber any shares of Restricted Stock or any interest therein. As a result of the retention of rights in the Restricted Stock by Wal-Mart, except as required by any law, neither any shares of the Restricted Stock nor any interest therein shall be subject in any manner to any forced or involuntary sale, transfer, conveyance, pledge, hypothecation, encumbrance, or other disposition or to any charge, liability, debt, or obligation of the Recipient, whether as the direct or indirect result of any action of the Recipient or any action taken in any proceeding, including any proceeding under any bankruptcy or other creditors' rights law. Any action attempting to effect any transaction of that type shall be void.

**7.4 Forfeiture.** Unless expressly provided for in the Restricted Stock Award made to a Recipient, any Restricted Stock held by the Recipient at the time the Recipient ceases to be an Associate for any reason shall be forfeited by the Recipient to Wal-Mart and automatically re-conveyed to Wal-Mart.

**7.5 Withholding.** The Committee may withhold any amounts necessary to collect any withholding taxes, or Shares up to the minimum number required for tax withholding, with respect to any Restricted Stock Award or upon the fulfillment of the Restriction in that Restricted Stock Award.

**7.6 Compliance with Law.** The making of Restricted Stock Awards and issuance of any Restricted Stock is subject to compliance by Wal-Mart with all applicable laws. Wal-Mart need not issue or transfer Restricted Stock pursuant to the Plan unless Wal-Mart's legal counsel has approved all legal matters in connection with the issuance and delivery of the Restricted Stock.

**7.7 Evidence of Share Ownership.** The Restricted Stock will be book-entry shares only unless the Committee decides to issue certificates to evidence shares of the Restricted Stock. Any stock certificate(s) representing the Restricted Stock issued to a Recipient that is so issued shall bear the following legend:

THE SHARES REPRESENTED BY THIS CERTIFICATE HAVE BEEN ISSUED PURSUANT TO THE WAL-MART STORES, INC. STOCK INCENTIVE PLAN OF 1998 (THE "PLAN") AND ARE SUBJECT TO SUBSTANTIAL RESTRICTIONS ON THEIR TRANSFER AND TO FORFEITURE TO WAL-MART STORES, INC. IF CERTAIN CONDITIONS ARE NOT MET. THOSE RESTRICTIONS AND CONDITIONS ARE SET FORTH IN THE PLAN AND IN THE RESTRICTED STOCK AWARD PURSUANT TO WHICH THOSE SHARES WERE ISSUED TO THE REGISTERED HOLDER THEREOF.

Wal-Mart will place stop-transfer instructions with respect to all Restricted Stock on its stock transfer records.

**7.8 Deferral of Restricted Stock.** In the discretion of the Committee, any Recipient of Restricted Stock may elect to defer his or her Restricted Stock in accordance with rules and procedures established by the Committee.

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## RESTRICTED STOCK RIGHT

**8.1 Grant of Restricted Stock Right Awards.** Wal-Mart may make Restricted Stock Right Awards to those Associates or Non-Associate Directors as the Committee may determine in its sole discretion. Each Restricted Stock Right Award shall have those terms and conditions that are expressly set forth in, or are required by, the Plan and the Notice of Plan Award. The Notice of Plan Award may contain other terms and conditions as the Committee making the Restricted Stock Right Award may determine in its discretion.

**8.2 Issuance of Restricted Stock Rights.** Until the Restricted Stock Right is vested and the Shares subject to that right are issued or transferred to or purchased for the Associate or Non-Associate Director, the Associate or Non-Associate Director shall not have any beneficial ownership in any Shares subject to the Restricted Stock Right until Shares are issued, transferred or purchased upon satisfaction of the applicable Restriction, nor shall the Associate or Non-Associate Director have the right to sell, transfer, assign, convey, pledge, hypothecate, grant any security interest in or mortgage on, or otherwise dispose of or encumber any Restricted Stock Right or any interest therein. As a result of the restrictions in a Restricted Stock Right, except as required by any law, no Restricted Stock Right nor any interest therein shall be subject in any manner to any forced or involuntary sale, transfer, conveyance, pledge, hypothecation, encumbrance, or other disposition or to any charge, liability, debt, or obligation of the Associate or Non-Associate Director, whether as the direct or indirect result of any action of the Associate or Non-Associate Director or any action taken in any proceeding, including any proceeding under any bankruptcy or other creditors' rights law. Any action attempting to effect any transaction of that type shall be void.

**8.3 Number of Shares.** An Associate or Non-Associate Director granted Restricted Stock Rights under a particular Restricted Stock Right Award shall, except as noted below, upon completion of the Vesting Period described in the Notice of Plan Award relating thereto, be entitled to receive that number of Shares described in the particular Notice of Plan Award. Where in the judgment of the Committee, it is in the interests of Wal-Mart to do so, in lieu of providing for the issuance of Subject Shares, a grant of a Restricted Stock Right Award may provide instead that Wal-Mart purchase shares on the open market on behalf of an Associate or Non-Associate Director ("Open Market Shares").

**8.4 Forfeiture.** Restricted Stock Rights and the entitlement to Shares thereunder will be forfeited and all rights of an Associate or Non-Associate Director to such Restricted Stock Rights and the Shares thereunder will terminate if the Restricted Stock Rights do not vest.

**8.5 Limitation of Rights.** A Recipient of Restricted Stock Rights is not entitled to any rights of a holder of the Shares (e.g. voting rights and dividend rights), prior to the receipt of such shares pursuant to the Plan.

**8.6 Withholding.** The Committee may withhold any amounts necessary to collect any withholding taxes, or Shares up to the minimum number required for tax withholding, upon the taxable event relating to the Restricted Stock Right, provided, however, in some countries (e.g. Canada), the Committee may not withhold from Open Market Shares.

**8.7 Compliance with Law.** The granting of Restricted Stock Rights and the issuance of any Shares or the purchase of Open Market Shares subject thereto is subject to compliance by Wal-Mart with all applicable laws.

**8.8 Deferral of Restricted Stock Rights.** In the discretion of the Committee, upon completion of the Vesting Period described in the Notice of Plan Award relating thereto, any Recipient of Restricted Stock Right may elect to defer his or her receipt of Shares in accordance with rules and procedures established by the Committee.

## STOCK APPRECIATION RIGHTS AND STOCK VALUE EQUIVALENT AWARDS

**9.1 Grant.** Wal-Mart may grant Stock Appreciation Rights and Stock Value Equivalent Awards to Associates or Non-Associate Directors on any terms and conditions the Committee deems desirable. A Recipient granted a Stock Appreciation Right will be entitled to receive on the date on which the Recipient properly elects to receive a payment in

respect of his or her Stock Appreciation Rights an amount equal to (i) the excess of the Fair Market Value of a Share on that date over the Fair Market Value of a Share on the date of grant of the Recipient's Stock Appreciation Right, (ii) a predetermined amount that is less than that excess or (iii) any other amount as may be set by the Committee, multiplied by the number of Share equivalents as to which the Recipient elects to receive the payment. A Recipient granted a Stock Value Equivalent Award will be entitled to receive on the date on which the Recipient properly elects to receive a payment in respect of his or her Stock Value Equivalent Award an amount equal to the Fair Market Value on that date multiplied by the number of Share equivalents as to which the Recipient elects to receive the payment.

**9.2 Award Vesting.** The Committee shall establish the conditions pursuant to which, and the period over which, the rights of the Recipient in Stock Appreciation Rights or a Stock Value Equivalent Award will fully or partially vest and the Recipient will be entitled to elect to receive any payment under his or her Plan Award.

**9.3 Election to Receive Payments.** A Recipient may elect to receive a payment to which the Recipient is entitled under the Plan Award by giving notice of such election to the Committee in accordance with the rules established by the Committee.

**9.4 Payments to Recipients.** Subject to the terms and conditions of the Plan Award granting the Stock Appreciation Right or the Stock Value Equivalent Award, a payment to a Recipient with respect to Stock Appreciation Rights or a Stock Value Equivalent Award may be made (i) in cash or by check, (ii) in Shares having an aggregate Fair Market Value on the date on which the Recipient elects to receive the payment equal to the amount of the payment to be made under the Plan Award or (iii) any combination of cash and Shares, as the Committee shall determine in its sole discretion. The Committee may elect to make this determination either at the time the Plan Award is granted, or with respect to payments contemplated in clauses (i) and (ii) above, at the time the Recipient makes his or her election to receive a payment with respect to the Plan Award. The Committee shall not make any payment in Shares if such payment would result in any adverse tax or other legal effect as to this Plan or Wal-Mart.

## MISCELLANEOUS

### **10.1 Issuance of Stock Certificates; Book-Entry; or Purchase of Stock.**

- (a) If a Recipient has the right to the issuance of any Shares pursuant to any Plan Award, Wal-Mart shall issue or cause to be issued a stock certificate or a book-entry crediting shares to the Recipient's account promptly upon the exercise of the Plan Award or the right arising under the Plan Award.
- (b) A Recipient's right to Open Market Shares pursuant to a Restricted Stock Right Award, shall not be satisfied by Wal-Mart's issuance of shares but rather Wal-Mart shall purchase the Shares on the open market on behalf of the Associate by forwarding cash to an independent broker who will in turn purchase the Shares on the open market on behalf, and in the name of the Associate.

**10.2 Section 162(m) Matters.** The Compensation and Nominating Committee of the Board may grant Plan Awards that provide for the rights thereunder to accrue based on performance-based criteria and that is intended to qualify for the performance-based exception under Code Section 162(m)(4)(C). In granting any Performance Based Award, the Compensation Committee shall comply fully with the regulations promulgated with respect to Code Section 162(m); provided, however, that no Recipient who is a "covered employee" as defined in Code Section 162(m)(3) shall receive grants of Plan Awards with respect to more than 1,600,000 Shares and Share equivalents in any one fiscal year of Wal-Mart, subject to adjustment as provided in the paragraph captioned "Adjustments upon Changes in Capitalization or Mergers" below. Nothing in the Plan shall be construed to prevent the issuance of Plan Awards to any "covered employees" that are not Performance Based Awards if the Committee so elects. The Committee may establish rules and procedures, similar to those rules and procedures implemented pursuant to Sections 7.8 and 8.8, providing for the automatic deferral of Restricted Stock and/or Restricted Stock Rights (and related Shares) of Recipients who are "covered employees," as defined in Code Section 162(m)(3), as necessary to avoid a loss of deduction under Code Section 162(m)(1).

**10.3 Termination of Employment.** Except as otherwise expressly set forth in the Plan, the Committee shall determine the effect of the termination of a Recipient's employment, a Recipient's disability or death or a Non-Associate Director's ceasing to be a director of Wal-Mart during any applicable vesting period contained in a Plan Award made to the Recipient. During a period for which the Recipient is subject to administrative suspension, a Recipient's right to exercise any rights under any Plan Award or the vesting of any rights under any Plan Award shall be suspended.

**10.4 Termination for Cause .** Notwithstanding anything to the contrary contained in the Plan, any Recipient whose Continuous Status as an Associate or Non-Associate Director is terminated by Wal-Mart for Cause shall forfeit all Plan Awards and Restricted Stock granted under the Plan, whether or not vested or otherwise exercisable.

**10.5 Death of Recipient.** If a Recipient dies, the Recipient's Award may be exercised, in accordance with its terms or as allowed by law, by the Recipient's estate or by a person who acquired the right to exercise the Award by bequest or inheritance, but only to the extent provided in the Option or Notice of Plan Award, or as the Committee may otherwise permit consistent with the terms of the Plan. Unless otherwise provided in the Option or Notice of Plan Award, (a) Awards may be exercised after death only to the extent the Recipient was otherwise entitled to exercise the Award at the date of the Recipient's death and only if exercised within 12 months after the Recipient's death, and (b) to the extent an Award was unvested at the date of death, the Award shall terminate.

**10.6 Limitations on Liability and Award Obligations.** Receiving a Plan Award or being the owner of any Option, Restricted Stock Award, Restricted Stock Right Award or Stock Appreciation Right shall not:

- (a) give a Recipient any rights except as expressly set forth in the Plan or in the Plan Award and except as a stockholder of Wal-Mart as set forth herein as to the Restricted Stock only;
- (b) as to Shares issuable on the exercise of Options or Stock Appreciation Rights payable in Shares, until the issuance (as evidenced by the appropriate entry on the books of Wal-Mart of a duly authorized transfer agent of Wal-Mart) of the Shares issued upon exercise of an Option or Stock Appreciation Right, give the Recipient the right to vote, or receive dividends on, the Shares to be issued upon exercise or any other rights as a stockholder with respect to the Optioned Stock or those Shares, notwithstanding the exercise of the Option or Stock Appreciation Right;
- (c) be considered a contract of employment or give the Recipient any right to continued employment, or to hold any position, with Wal-Mart or any Affiliate;
- (d) create any fiduciary or other obligation of Wal-Mart or any Affiliate to take any action or provide to the Recipient any assistance or dedicate or permit the use of any assets of Wal-Mart or any Affiliate that would permit the Recipient to be able to attain any performance criteria stated in the Recipient's Plan Award;
- (e) create any trust, fiduciary or other duty or obligation of Wal-Mart or any Affiliate to engage in any particular business, continue to engage in any particular business, engage in any particular business practices or sell any particular product or products; or
- (f) create any obligation of Wal-Mart or any Affiliate that shall be greater than the obligations of Wal-Mart or that Affiliate to any general unsecured creditor of Wal-Mart or the Affiliate.

If Wal-Mart or an Affiliate terminates a Recipient's employment with Wal-Mart or the Affiliate, the potential value of any Plan Award or Restricted Stock that must be returned to Wal-Mart will not be an element of any damages that the Recipient may have for any termination of employment or other relationship in violation of any contractual or other rights the Recipient may have.

**10.7 No Liability of Committee Members.** Wal-Mart shall indemnify and hold harmless each member of the Committee and each other officer, director and Associate of Wal-Mart or any Affiliate that has any duty or power relating to the administration of the Plan against any liability, obligation, cost or expense incurred by that person arising out of any act or omission to act in connection with the Plan or any Plan Award if he or she acted in good faith and in a manner reasonably believed to be in or not opposed to the best interest of Wal-Mart.

**10.8 Adjustments upon Changes in Capitalization or Merger.** Subject to any required action by the Wal-Mart stockholders, the number of Shares covered by each Plan Award, and the number of Shares which have been authorized for issuance under the Plan but as to which no Plan Awards have yet been granted or which have been returned to the Plan upon cancellation or expiration of a Plan Award, as well as the price per Share covered by any outstanding Plan Award that includes in its terms a price per Share, shall be proportionately adjusted for any increase or decrease in the number of issued shares of the Common Stock of Wal-Mart resulting from a stock split, reverse stock split, stock dividend, combination or reclassification of the Common Stock of Wal-Mart, or any other increase or decrease in the number of issued Shares effected without receipt of consideration by Wal-Mart. That adjustment shall be made by the Committee, whose determination shall be final, binding and conclusive as to every person interested under this plan. Except as expressly provided herein, no issuance by Wal-Mart of shares of stock of any class, or securities convertible into shares of stock of any class, shall affect, and no adjustment by reason thereof shall be made with respect to, the number or price of Shares subject to a Plan Award.

**10.9 Notification.** Options, Restricted Stock Awards, Restricted Stock Right Awards and Stock Appreciation Rights shall be evidenced by Notifications or other award documents in the form approved by the Committee.

**10.10 Amendment and Termination of the Plan.** The Board may amend or terminate the Plan at any time without the approval of the Recipients or any other person, except to the extent any action of that type is required to be approved by the stockholders of Wal-Mart in connection with any outstanding Performance Based Awards.

**10.11 Governing Law.** The Plan shall be governed by and construed in accordance with the laws of the State of Arkansas, except that any matters relating to the internal governance of Wal-Mart shall be governed by the Delaware Law.

**10.12 Superseding Existing Plans. Effective Date and Transition.** The Plan supersedes the Wal-Mart Stores, Inc. Stock Option Plan of 1994, as amended, and the Wal-Mart Stores, Inc. 1997 Restricted Stock Plan. This Plan was approved by the Board on, and shall be effective as of, March 5, 1998, and was subsequently approved by the holders of a majority of the outstanding Shares at Wal-Mart's 1998 annual stockholders' meeting.

**10.13 Funding.** To the extent the Plan is subject to the Employee Retirement Income Security Act of 1974 ("ERISA"), it is intended to be (and will be administered as) an unfunded employee pension plan benefiting a select group of management or highly compensated employees under the provisions of ERISA. It is intended that the Plan be "unfunded" for federal tax purposes and for purposes of Title I of ERISA.

**WAL-MART STORES, INC.**  
**MANAGEMENT INCENTIVE PLAN**  
(As amended and restated effective February 1, 2003)

**1. GENERAL**

**1.1. Purpose.** The purpose of the Wal-Mart Stores, Inc. Management Incentive Plan ("MIP") is to advance the interests of the shareholders of the Company by providing performance-based incentives to eligible management associates.

**1.2. Effective Date.** The MIP, which was originally called the Wal-Mart Stores, Inc. Management Incentive Plan of 1998, was originally effective February 1, 1998. The MIP is hereby amended and restated, effective for the Fiscal Year beginning February 1, 2003, subject to the approval of the Company's shareholders, and shall remain effective for each subsequent Performance Period until terminated by the Board.

**1.3. Compliance with Section 162(m).**

(a) To the extent awards to Covered Employees are intended to be "qualified performance-based compensation" under Section 162 (m), the material terms of the performance goals under which nondiscretionary Incentive Awards are paid (and any material changes in material terms) shall be disclosed to and approved by the Company's shareholders in a separate vote. Material terms include (i) the eligible employees specified in Section 3.1, (ii) the Performance Measures pursuant to which the Performance Goals specified pursuant to Section 2.11 are set, and (iii) the maximum nondiscretionary Incentive Plan Award under Section 4.2(b).

(b) Unless sooner required by Section 4.1(c), material terms shall be redisclosed to and reapproved every five years by the Company's shareholders in a separate vote. If applicable laws change to permit Committee discretion to alter the governing performance measures without conditioning deductibility on obtaining shareholder approval (or reapproval) of any changes, the Committee shall have sole discretion to make changes without obtaining shareholder approval or reapproval.

(c) Whenever the Committee determines that it is advisable to grant or pay Incentive Plan Awards that do not qualify as "qualified performance-based compensation," the Committee may make grants or payments without satisfying the requirements of Section 162(m).

**2. DEFINITIONS**

**2.1. "Board"** means the Board of Directors of the Company.

**2.2. "Committee"** means the Compensation, Nominating and Governance Committee of the Board, or other committee designated by the Board as the "Committee" under the MIP. With respect to Covered Employees for whom the MIP is intended to provide "qualified

performance-based compensation,” any Committee must consist of two or more persons each of whom are “outside directors” within the meaning of Section 162(m). To the extent the Committee delegates authority pursuant to Section 5.2, references to the Committee in the MIP shall, as appropriate, be deemed to refer to the Committee’s delegate.



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**2.3. “Company”** means Wal-Mart Stores, Inc. and any successor thereto that adopts the Plan.

**2.4. “Covered Employee”** has the meaning of term under Section 162(m)(3).

**2.5. “Employer”** means the Company and any Related Affiliate that employs a Participant.

**2.6. “Fiscal Year”** means the 12-month period beginning on each February 1 and ending on the following January 31.

**2.7. “Incentive Percentage”** means the percentage of a Participant’s rate of salary in effect for the last full payroll period of the Performance Period to be paid as an Incentive Plan Award if the specified Performance Goals are achieved. The Committee may establish different Incentive Percentages for individual Participants or different classes of Participants, and/or the achievement of different levels of the Performance Goals. Solely with respect to Covered Employees, for any Performance Period for which the MIP is intended to provide “qualified performance-based compensation,” the Incentive Percentages must be established by the Committee no later than 90 days after the beginning of the Fiscal Year for which the Incentive Plan Award pertains (or, in the case of a Performance Period other than a Fiscal Year, no later than the date 25% of the Performance Period has elapsed) and while the attainment of the Performance Goals is substantially uncertain.

**2.8. “Incentive Plan Award”** means an annual incentive compensation award under the MIP, payment of which is contingent and based upon the attainment of the Performance Goals with respect to a Performance Period.

**2.9. “MIP”** means the Wal-Mart Stores, Inc. Management Incentive Plan, as amended and restated herein, and as it may be amended from time to time.

**2.10. “Participant”** means an associate of an Employer participating in the Plan for a Performance Period as provided in Section 3.1.

**2.11. “Performance Goals”** means the pre-established objective performance goals established by the Committee for each Performance Period. Solely with respect to Covered Employees, for any Performance Period for which the MIP is intended to provide “qualified performance-based compensation,” Performance Goals shall be established by the Committee no later than 90 days after the beginning of the Fiscal Year to which the Performance Goals pertain (and in the case of a Performance Period other than a Fiscal Year, no later than the date 25% of the Performance Period has elapsed) and while the attainment of the Performance Goals is substantially uncertain. The Performance Goals may be based upon the performance of the Company, of any Related Affiliate, of a division thereof, or of an individual Participant, using one or more of the Performance Measures selected by the Committee. Separate Performance Goals may be established by the Committee for the Company or a Related Affiliate, or division thereof, or an individual. The Performance Goals shall include a threshold Performance Goal under which no Incentive Plan Awards shall be paid if the threshold goal is not achieved. With

respect to Participants who are not Covered Employees, the Committee may establish other subjective or objective goals, including individual Performance Goals, which it deems appropriate. The preceding sentence shall also apply to Covered Employees with respect to any Incentive Plan Award not intended at time of grant to be “qualified performance-based compensation.” Performance Goals may be set at a specific level, or may be expressed as a relative percentage to the comparable measure at comparison companies or a defined index.

**2.12. “Performance Measure”** means one or more of the following criteria, on which Performance Goals may be based, subject to Section 4.1(a): (a) earnings (either in the aggregate or on a per-share basis, reflecting dilution of shares as the Committee deems appropriate and, if the Committee so determines, net of or including dividends) before or after interest and taxes (“EBIT”) or before or after interest, taxes, depreciation and amortization (“EBITDA”); (b) gross or net revenue, or changes in annual revenues; (c) cash flow(s) (including either operating or net cash flows); (d) financial return ratios; (e) total shareholder return, shareholder return based on growth measures or the attainment by the shares of a specified value for a specified period of time, share price or share price appreciation; (f) earnings growth or growth in earnings per share; (g) return measures, including return or net return on assets, net assets, equity, capital or gross sales; (h) adjusted pre-tax margin; (i) pre-tax profits; (j) operating margins; (k) operating profits; (l) operating expenses; (m) dividends; (n) net income or net operating income; (o) growth in operating earnings or growth in earnings per share; (p) value of assets; (q) market share or market penetration with respect to specific designated products or product groups and/or specific geographic areas; (r) aggregate product price and other product measures; (s) expense or cost levels, in each case, where applicable, determined either on a Company-wide basis or in respect of any one or more specified divisions; (t) reduction of losses, loss ratios or expense ratios; (u) reduction in fixed costs; (v) operating cost management; (w) cost of capital; (x) debt reduction; (y) productivity improvements; (z) average inventory turnover; (aa) satisfaction of specified business expansion goals or goals relating to acquisitions or divestitures; (bb) customer satisfaction based on specified objective goals or a Company-sponsored customer survey; (cc) employee diversity goals; ; (dd) employee turnover; (ee) specified objective social goals; or (ff) safety record.

**2.13. “Performance Period”** means a Fiscal Year or other period of time (which may be longer or shorter than a Fiscal Year) set by the Committee.

**2.14. “Section 162(m)”** means section 162(m) of the Internal Revenue Code of 1986, as amended from time to time, and the regulations thereunder.

**2.15. “Related Affiliate”** means a business or entity that is, directly or indirectly, controlled by the Company.

### **3. PARTICIPATION**

**3.1. Eligibility.** Associates eligible to participate in the MIP shall consist of officers and other management associates of an Employer whom the Committee determines have the potential to contribute significantly to the success of the Company and its Related Affiliates. For each Performance Period the Committee shall determine which officers and other management associates shall participate in the MIP. For any Performance Period for which Incentive Plan Awards are intended to be “qualified performance-based compensation,” under Section 162(m),

the Committee shall designate the Covered Employees eligible to participate in the MIP no later than the 90th day of the Fiscal Year (or, in the case of a Performance Period other than a Fiscal Year after no later than the date 25% of the Performance Period has elapsed).

Unless determined otherwise by the Committee, associates shall not be eligible to participate in the MIP for any period they are participating in any other incentive program maintained by the Company or any other Related Affiliate. At any time, including during a Performance Period, the Committee may add additional classes or delete classes of associates for participation in the Plan as it deems appropriate for the Performance Period, except that payment of an Incentive Plan Award due to any change, to the extent the Incentive Plan Award would not be deductible if paid in the ordinary course, shall be deferred until the Incentive Plan Award is deductible.

#### **4. INCENTIVE PLAN AWARDS**

##### **4.1. Determination of Incentive Plan Awards.**

(a) The Committee shall, promptly after the date on which the necessary financial, individual or other information for a particular Performance Period becomes available, determine and certify the degree to which each of the Performance Goals have been attained. Performance Goals shall, to the extent applicable, be based upon generally accepted accounting principles, but shall be adjusted by the Committee to take into account the effect of the following: changes in accounting standards that may be required by the Financial Accounting Standards Board after the Performance Goal is established; realized investment gains and losses; extraordinary, unusual, non-recurring or infrequent items; currency fluctuations; acquisitions; divestitures; litigation losses; financing activities; expenses for restructuring or productivity initiatives; other non-operating items; new laws, cases or regulatory developments that result in unanticipated items of gain, loss, income or expense; executive severance arrangements; investment returns relating to investment vehicles which are unaffiliated with a Company or divisional operating strategy; and other items as the Committee determines to be required so that the operating results of the Company, division, or a Related Affiliate shall be computed on a comparative basis from Performance Period to Performance Period. Determination by the Committee or its designee shall be final and conclusive on all parties, but shall be based on relevant objective information or financial data.

(b) Unless the Committee provides otherwise when establishing the Performance Goal, if the Company fails to achieve its threshold Performance Goal, no Incentive Plan Award shall be paid even if any applicable threshold division Performance Goal has been achieved. Similarly, unless provided otherwise by the Committee when establishing the Performance Goal, if the Company fails to achieve its threshold Performance Goal, no Incentive Plan Award shall be paid even if any individual Performance Goal has been satisfied. Participants whose Incentive Plan Award is based on the attainment of Company Performance Goals and division/individual Performance Goals shall earn the Company portion of the Incentive Plan Award if the Company attains its Performance Goals, even if the division/individual Performance Goals are not achieved.

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#### **4.2. Eligibility and Amount of Incentive Plan Award.**

(a) To be eligible for payment of any Incentive Plan Award, the Participant must: (i) be employed by the Company or a Related Affiliate on the last day of the Performance Period to which the award pertains, unless termination is due to the Participant's death; (ii) have performed the Participant's duties to the satisfaction of the Committee; (iii) have not engaged in any act deemed by the Committee to be inimical to the best interest of the Company or a Related Affiliate; and (iv) otherwise complied with Company and Employer policies at all times prior to the date the Incentive Plan Award is actually paid. No Incentive Plan Award shall be paid to any Participant who does not satisfy each of the above. The Committee may, in its sole discretion, reduce, eliminate or increase any Incentive Plan Award for any individual or group, except that the amount of any Incentive Plan Award intended to be "qualified performance-based compensation" may not be increased above the amount determined under Section 4.1.

(b) The Incentive Plan Award shall be determined by multiplying the Incentive Percentage applicable to the Participant by the Participant's rate of base salary in effect for the last full payroll period of the Performance Period to which the Incentive Plan Award pertains. In no event, however, will an Incentive Plan Award for a Covered Employee exceed \$20,000,000 for a Fiscal Year Performance Period (or in the case of a Performance Period other than a Fiscal Year, an amount that bears the same ratio to \$20,000,000 as the Performance Period bears to a Fiscal Year). In the event of a Participant's death, the Incentive Plan Award shall be prorated based upon the number of full payroll periods worked in a MIP position for the Performance Period.

(c) The Committee shall have the discretion and authority to make adjustments to any Incentive Plan Award in circumstances where, during the Performance Period: (i) a Participant leaves the Employer and is rehired as a Participant; (ii) a Participant is hired, promoted or transferred into a position eligible for MIP participation; (iii) a Participant transfers between eligible MIP positions with different Incentive Percentages or Performance Goals; (iv) a Participant transfers to a position not eligible to participate in the MIP; (v) a Participant becomes eligible for an incentive from another incentive plan maintained by the Company or Related Affiliate; (vi) a Participant is on a leave of absence; and (vii) similar circumstances deemed appropriate by the Committee, consistent with the purpose and terms of the MIP; provided however, that the Committee shall not be authorized to increase the amount of the Incentive Plan Award payable to a Covered Employee that would otherwise be payable under the terms of the MIP if the amount was intended to be "qualified performance-based compensation."

**4.3. Payment of Award.** Incentive Plan Awards will be paid by the Participant's Employer in cash or cash equivalent by April 15 following the applicable Performance Period to which the award pertains, but in no event prior to certification by the Committee as provided in Section 4.1. If any portion of an Incentive Plan Award payable to a Covered Employee that is intended to be "qualified performance based compensation" for any reason is not deductible, payment of that portion shall, at the Committee's discretion, be deferred until the earliest date it may be paid and deducted. Further, if the Participant is on administrative suspension at the time payment would otherwise be made, payment shall be delayed until the matter is resolved by the Employer. No payment in that event or any event shall be made if the Committee determines the qualification requirements of Section 4.2.(a) have not been satisfied by the Participant. No absolute right to any Incentive Plan Award shall be considered as having accrued to any Participant prior to the payment of the Incentive Plan Award.

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## 5. ADMINISTRATION

**5.1. Administration.** The MIP shall be administered by the Committee. Subject to the provisions of the MIP, the Committee shall have full discretionary authority to administer and interpret the MIP, to exercise all powers either specifically granted to it under the MIP or as are necessary or advisable in the administration of the MIP, to decide the facts in any case arising under the MIP, to prescribe, amend and rescind rules and regulations relating to the MIP, to require performance reports on which it can base its determinations under Section 4.1, and to make all other determinations necessary or advisable for the administration of the MIP, all of which shall be binding on all persons, including the Company, Related Affiliates, the Participants (or any person claiming any rights under the MIP from or through any Participant), and any shareholder of the Company. The Committee's administration of the MIP, including all rules and regulations, interpretations, selections, determinations, approvals, decisions, delegations, amendments, terminations and other actions, shall be final and binding on the Company and its shareholders, Related Affiliates and all associates of any Employer, including Participants and their beneficiaries. A majority of the Committee shall constitute a quorum, and, provided a quorum is present, the Committee shall act pursuant to a majority vote of those present or by unanimous written consent. No member of the Board or the Committee shall be liable for any action taken or determination made in good faith with respect to the MIP or any Incentive Plan Award.

**5.2. Delegation.** Except to the extent prohibited by applicable law or the applicable rules of a stock exchange, the Committee may allocate all or any portion of its responsibilities and powers to any one or more of its members, may delegate all or any part of its responsibilities and powers for administering the MIP to one or more persons as the Committee deems appropriate, and at any time revoke the allocation or delegation; provided however, the Committee may not delegate its responsibilities under the Plan relating to any Covered Employee's Incentive Plan Award intended to be "qualified performance-based compensation" to the extent delegation is prohibited under Section 162(m).

## 6. MISCELLANEOUS

### **6.1. Amendment and Termination.**

(a) The Board may at any time amend or terminate the MIP (in whole or in part) without the approval of the shareholders of the Company, except as otherwise provided in this Section 6.1. Neither the Company nor any Related Affiliate is obligated to continue this MIP.

(b) Any amendment to the MIP that changes the class of associates of an Employer eligible to participate, changes the Performance Goals, Performance Measures or Incentive Percentage, or increases the maximum dollar amount that may be paid to a Participant for a Performance Period shall not be effective with respect to Incentive Plan Awards to Covered Employees intended to be "qualified performance based compensation" unless the amendment is approved by shareholders as provided in Section 1.3 before the Incentive Plan Award is paid.

## 6.2. Effect of Incentive Plan Awards on Other Compensation .

(a) Awards shall not be considered eligible pay under other plans, benefit arrangements, or fringe benefit arrangements of the Company or a Related Affiliate, unless otherwise provided under the terms of other plans.

(b) To the extent provided in the applicable benefit plan or benefit arrangement of the Company or a Related Affiliate, amounts payable as Incentive Plan Awards will be reduced in accordance with the Participant's compensation reduction election, if any, in effect under other plans at the time the Incentive Plan Award is paid.

**6.3. No Guarantee, No Funding .** The payment of an Incentive Plan Award for any Performance Period does not guarantee any person eligibility for or payment of an Incentive Plan Award for any other Performance Period. Incentive Plan Awards shall be paid solely from the general assets of the Participant's Employer, to the extent the payments are attributable to services for the Employer. To the extent any person acquires a right to receive payments from an Employer under the MIP, the right is no greater than the right of any other unsecured general creditor.

**6.4. Tax Withholding .** The Participant's Employer shall have the right to deduct from all payments made under the MIP any federal, state or local taxes required by law to be withheld with respect to the payments.

**6.5. Governing Law .** The Plan and all rights to an Incentive Plan Award hereunder shall be construed in accordance with and governed by the laws of the State of Arkansas, except that any matters relating to the internal governance of the Company shall be governed by the General Corporation Law of the State of Delaware.

**6.6. Awards Not Transferable .** Subject to Section 6.8, a Participant's rights and interest under the MIP may not be assigned or transferred. Any attempted assignment or transfer shall be null and void and shall extinguish, in the Committee's sole discretion, the Employer's obligation under the MIP to pay Incentive Plan Awards with respect to the Participant.

**6.7. Employment .** Neither the adoption of the MIP nor its operation shall in any way affect the rights and power of the Company or any Related Affiliate to dismiss or discharge any Participants. The MIP is not a contract between the Company or any Related Affiliate and any associate of the Company or Related Affiliate or Participant.

**6.8. Death .** In the event of a Participant's death prior to the payment of any Incentive Plan Award to which the Participant is otherwise entitled, payment shall be made to the Participant's then-effective beneficiary or beneficiaries under the Employer-paid group term life arrangement.

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## EXHIBIT 12

### STATEMENT RE COMPUTATION OF RATIOS

	2004	2003	2002	2001	2000
Income from continuing operations before income tax	\$14,193	\$12,368	\$10,396	\$ 9,783	\$ 9,110
Capitalized interest	(144)	(124)	(130)	(93)	(57)
Minority interest	(214)	(193)	(183)	(129)	(170)
Adjusted income from continuing operations before income taxes	13,835	12,051	10,083	9,561	8,883*
Fixed charges:					
Interest**	1,196	1,372	1,530	1,522	1,180
Interest component of rent	306	318	289	245	212
Total fixed charges	1,502	1,690	1,819	1,767	1,392
Income from continuing operations before taxes and fixed charges	\$15,337	\$13,741	\$11,902	\$11,328	\$10,275
<b>Earnings to Fixed Charges Ratio</b>	<b>10.21</b>	<b>8.13</b>	<b>6.54</b>	<b>6.41</b>	<b>7.38</b>

\* Does not include the cumulative effect of accounting change recorded by the Company in fiscal 2000.

\*\* Includes interest on debt, capital leases, debt issuance cost and capitalized interest

## 11 – Year Financial Summary

(Dollar amounts in millions except per share data)  
Fiscal Years Ending January 31,

	2004	2003	2002
<b>Net Sales</b>	<b>\$256,329</b>	<b>\$229,616</b>	<b>\$204,011</b>

Net sales increase	12%	13%	13%
Domestic comparative store sales increase*	4%	5%	6%
Cost of sales	\$198,747	\$178,299	\$159,097
Operating, selling, general and administrative expenses	44,909	39,983	35,147
Interest expense, net	832	927	1,183
Effective tax rate	36%	35%	36%
Income from continuing operations	\$ 8,861	\$ 7,818	\$ 6,448
Net income	9,054	7,955	6,592

Per share of common stock:

Income from continuing operations, diluted	2.03	1.76	1.44
Net income, diluted	2.07	1.79	1.47
Dividends	0.36	0.30	0.28

**Financial Position**

Current assets of continuing operations	\$ 34,421	\$ 29,543	\$ 26,615
Inventories	26,612	24,401	22,053
Property, plant and equipment and capital leases, net	58,530	51,374	45,248
Total assets of continuing operations	104,912	92,900	81,549
Current liabilities of continuing operations	37,418	32,225	26,795
Long-term debt	17,102	16,597	15,676
Long-term obligations under capital leases	2,997	3,000	3,044
Shareholders' equity	43,623	39,461	35,192

**Financial Ratios**

Current ratio	0.9	0.9	1.0
Return on assets**	9%	9%	8%
Return on Shareholders' equity***	21%	21%	19%

**Other Year-End Data**

Domestic Discount Stores	1,478	1,568	1,647
Domestic Supercenters	1,471	1,258	1,066
Domestic SAM'S CLUBS	538	525	500
Domestic Neighborhood Markets	64	49	31
International units	1,355	1,272	1,154
Shareholders of record	335,000	330,000	324,000

\* Comparative store sales are considered to be sales at stores that were open as of February 1 of the prior fiscal year and have not been expanded or relocated since February 1 of the prior fiscal year.

\*\* Income from continuing operations before cumulative effect of accounting change divided by average assets.

\*\*\* Income from continuing operations divided by average Shareholders' equity.

Financial information for all years has been restated to reflect the sale of McLane Company, Inc. ("McLane") that occurred in fiscal 2004. McLane is presented as a discontinued operation.

All years have been restated for the adoption of the expense recognition provisions of Financial Accounting Standards Board Statement No. 123, "Accounting and Disclosure of Stock-Based Compensation." Fiscal 1994 and 1995 were not affected by the adoption.

In fiscal 2003, the Company adopted Financial Accounting Standards Board Statement No. 142, "Goodwill and Other Intangible Assets." In years prior to adoption, the Company recorded amortization expense related to goodwill.

2001	2000	1999	1998	1997	1996	1995	1994
\$180,787	\$156,249	\$130,522	\$112,005	\$ 99,627	\$ 89,051	\$ 78,338	\$ 63,367
16%	20%	17%	12%	12%	14%	24%	21%
5%	8%	9%	6%	5%	4%	7%	6%
\$140,720	\$121,825	\$102,490	\$ 88,163	\$ 78,897	\$ 70,485	\$ 61,929	\$ 50,031
30,822	26,025	21,778	18,831	16,437	14,547	12,434	9,889
1,196	840	598	716	807	863	669	483
36%	37%	37%	37%	37%	37%	37%	37%
\$ 6,087	\$ 5,394	\$ 4,240	\$ 3,424	\$ 2,978	\$ 2,689	\$ 2,643	\$ 2,262
6,235	5,324	4,397	3,504	3,042	2,737	2,681	2,333
1.36	1.21	0.95	0.76	0.65	0.58	0.58	0.49
1.39	1.19	0.98	0.77	0.66	0.59	0.59	0.51
0.24	0.20	0.16	0.14	0.11	0.10	0.09	0.07
\$ 25,344	\$ 23,478	\$ 20,064	\$ 18,589	\$ 17,385	\$ 16,779	\$ 14,827	\$ 11,727
20,987	19,296	16,361	16,005	15,556	15,667	13,726	10,762
40,461	35,533	25,600	23,237	19,935	18,554	15,561	12,861
76,231	68,983	48,513	44,221	38,571	36,621	31,959	25,696
28,366	25,525	16,155	13,930	10,432	10,944	9,449	6,885
12,489	13,653	6,887	7,169	7,685	8,483	7,844	6,127
3,152	3,000	2,697	2,480	2,304	2,089	1,834	1,800
31,407	25,878	21,141	18,519	17,151	14,757	12,726	10,753
0.9	0.9	1.2	1.3	1.7	1.5	1.6	1.7
9%	10%	10%	9%	8%	8%	9%	10%
21%	23%	21%	19%	19%	20%	23%	23%
1,736	1,801	1,869	1,921	1,960	1,995	1,985	1,950
888	721	564	441	344	239	147	72
475	463	451	443	436	433	426	417
19	7	4	—	—	—	—	—
1,054	991	703	589	314	276	226	24
317,000	307,000	261,000	246,000	257,000	244,000	259,000	258,000

The acquisition of the ASDA Group PLC and the Company's related debt issuance had a significant impact on the fiscal 2000 amounts in this summary.

Years prior to 1998 have not been restated for the effects of the change in accounting method for SAM'S CLUB membership revenue recognition as the effects of this change would not have a material impact on this summary. The cumulative effect for this accounting change recorded in fiscal 2000 amounted to \$198 million net of tax.

Certain reclassifications have been made to prior periods to conform to current presentations.



## Management's Discussion and Analysis of Results of Operations and Financial Condition

We intend for this discussion to provide the reader with information that will assist in understanding our financial statements, the changes in certain key items in those financial statements from year to year, and the primary factors that accounted for those changes, as well as how certain accounting principles affect our financial statements. The discussion also provides information about the financial results of the various segments of our business to provide a better understanding of how those segments and their results affect the financial condition and results of operations of the Company as a whole. This discussion should be read in conjunction with our financial statements as of January 31, 2004, and the year then ended and the notes accompanying those financial statements.

### Overview

Wal-Mart is a global retailer committed to growing by improving the standard of living for our Customers throughout the world. We earn the trust of our Customers every day by providing a broad assortment of quality merchandise and services at every day low prices ("EDLP") while fostering a culture that rewards and embraces mutual respect, integrity and diversity. EDLP is our pricing philosophy under which we price items at a low price every day so that our Customers trust that our prices will not change erratically under frequent promotional activity. SAM'S CLUB is in business for small businesses. Our focus for SAM'S CLUB is to provide exceptional value on brand-name merchandise at "member's only" prices for both business and personal use. Internationally, we operate with similar philosophies.

### Operations

Our operations are comprised of three business segments. Our Wal-Mart Stores segment is the largest segment of our business, accounting for approximately 68% of our fiscal 2004 sales. This segment consists of three different retail formats, all of which are located in the United States, including:

- Discount Stores, which average approximately 98,000 square feet in size, offer a wide variety of general merchandise and a limited variety of food products;
- Supercenters, which average approximately 187,000 square feet in size, offer a wide variety of general merchandise and a full-line supermarket; and
- Neighborhood Markets, which average approximately 43,000 square feet in size and offer a full-line supermarket and a limited variety of general merchandise.

Our SAM'S CLUB segment consists of membership warehouse Clubs in the United States and accounts for approximately 13.5% of our fiscal 2004 sales. Our domestic SAM'S CLUBs average approximately 127,000 square feet in size.

Our International segment consists of operations in eight countries and Puerto Rico. This segment generated approximately 18.5% of our fiscal 2004 sales. The International segment includes several different formats of retail stores and restaurants, including Discount Stores, Supercenters and SAM'S CLUBs operated outside the United States. Our international units average approximately 85,000 square feet in size. Additionally, we own an unconsolidated 37.8% minority interest in The Seiyu, Ltd. ("Seiyu"), a retailer in Japan.

### The Retail Industry

We operate in the highly competitive retail industry in both the United States and abroad. We face strong sales competition from other general merchandise, food and specialty retailers. Additionally, we compete with a number of companies for prime retail site locations, as well as for attracting and retaining quality employees. We, along with other retail companies, are influenced by a number of factors including, but not limited to: cost of goods, consumer debt levels, economic conditions, customer preferences, employment, inflation, currency exchange fluctuations, fuel prices and weather patterns.

### Key Items in Fiscal 2004

Significant financial items during fiscal 2004 were:

- Total Company net sales increased 11.6% from fiscal 2003 to \$256.3 billion, and income from continuing operations increased 13.3% to \$8.9 billion;
- Operating cash flows from continuing operations were \$15.9 billion for fiscal 2004. During fiscal 2004 we repurchased \$5 billion of our common stock under our share repurchase program, paid dividends of \$1.6 billion and made capital expenditures of \$10.3 billion;
- Total assets increased 10.7% during fiscal 2004 to \$104.9 billion at January 31, 2004;
- Our International segment had an operating profit increase of 18.6% and a sales increase of 16.6% compared to fiscal 2003. The largest contributors to the strong international performance were our operations in Canada, Mexico and the United Kingdom. Operating profit as discussed in the segment portions of this Management's Discussion and Analysis of Results of Operations and Financial Condition refers to profit before interest, unallocated corporate expenses and income taxes;

- SAM'S CLUB's renewed focus on our business members helped drive a 10.1% increase in operating profit on an 8.9% increase in sales when comparing fiscal 2004 with fiscal 2003;
- When compared to fiscal 2003, our Wal-Mart Stores segment experienced a 9.1% increase in operating profit and a 10.9% increase in sales in fiscal 2004;
- In May 2003, we sold our subsidiary McLane Company, Inc. ("McLane") for \$1.5 billion and recognized a \$151 million after-tax gain on the sale, or \$0.03 per share. Management decided to sell McLane because it did not fit within the Company's core retail business. McLane's external sales prior to the divestiture were \$4.3 billion in fiscal 2004 and \$14.9 billion for fiscal 2003. McLane continues to be a supplier to the Company;
- We re-evaluated the recoverability of the deferred tax asset related to our German operations as the result of new tax legislation in Germany. Based on the results of our review, we recorded a valuation allowance in the amount of \$150 million, or \$0.03 per share, during the fourth quarter of fiscal 2004;
- On February 1, 2003, we adopted the expense provisions of Financial Accounting Standards Board Statement No. 123, "Stock-Based Compensation," and retroactively restated our financial statements. As a result of adopting this standard, we recorded \$102 million after-tax of stock compensation expense in 2004, or \$0.02 per share; and
- On February 1, 2003, we adopted Emerging Issues Task Force Consensus No. 02-16, "Accounting by a Reseller for Cash Consideration Received from a Vendor." This change in accounting reduced fiscal 2004 net income by \$140 million on an after-tax basis, or \$0.03 per share. As a result of adopting this standard, we account for substantially all consideration from vendors as a reduction of inventory purchases.

### *Company Performance Measures*

Management uses a number of metrics to assess its performance. The following are the more frequently discussed metrics:

- Comparative store sales is a measure which indicates whether our existing stores continue to gain market share. We consider comparative store sales to be sales at stores that were open as of February 1st of the prior fiscal year and have not been expanded or relocated during the current period. Stores that were expanded or relocated during that period are not included in the calculation of comparative store sales. Comparative store sales are also referred to as "same-store" sales by others within the retail industry. Our Wal-Mart Stores segment's comparative store sales were 3.9% for fiscal 2004 versus 5.7% in fiscal 2003. The lower comparative store sales growth in fiscal 2004 is largely reflective of the softer economy in fiscal 2004. Our SAM'S CLUB segment's comparative store sales were 5.3% in fiscal 2004 versus 2.3% in fiscal 2003. The more favorable growth in fiscal 2004 was the result of our renewed focus on the business member;
- Operating profit growth greater than sales growth has long been a measure of success for us. For fiscal 2004 our operating profit increased by 13.0% when compared to fiscal 2003, while sales increased by 11.6% over the same period. As previously noted, our International and SAM'S CLUB segments met this target, while the Wal-Mart Stores segment fell slightly short. A tough economy, weak apparel sales and increased apparel markdowns prevented our Wal-Mart Stores segment from reaching this goal;
- Inventory growth at a rate less than half of sales growth is a key measure of our efficiency. Total inventories at January 31, 2004, were up 9.1% over levels at January 31, 2003, and sales were up 11.6% when comparing fiscal 2004 with fiscal 2003. This ratio was affected by sales which were weaker than anticipated, as well as by increased imported merchandise in fiscal 2004, which has longer lead time; and
- With an asset base as large as ours, we are focused on continuing to make certain our assets are productive. It is important for us to sustain our return on assets at its current level. Return on assets is defined as income from continuing operations divided by average total assets.

### **Operating Results**

The discussion of our operating results below excludes the results of our discontinued operation, McLane, for all periods presented.

#### *Net Sales*

The Company and each of its operating segments had net sales (in millions) for the three fiscal years ended January 31, as follows:

Fiscal Year	Wal-Mart Stores	SAM'S CLUB	International	Total Company	Total Company Increase from Prior Fiscal Year
<b>2004</b>	<b>\$174,220</b>	<b>\$34,537</b>	<b>\$47,572</b>	<b>\$256,329</b>	<b>12%</b>
2003	157,120	31,702	40,794	229,616	13%
2002	139,131	29,395	35,485	204,011	13%

Our total net sales increased by 12% in fiscal 2004 when compared with fiscal 2003. That increase resulted from our domestic and international expansion programs along with comparative store sales increases. Domestic expansion during fiscal 2004 resulted from the

addition of 139 new Discount Stores, Supercenters and Neighborhood Markets, as well as 130 conversions and/or relocations from Discount Stores to Supercenters. One domestic Discount Store was closed during fiscal 2004. Additionally, we opened 13 SAM'S CLUBS domestically in fiscal 2004. Properties vacated as the result of relocation to a new site within the same trade area are not considered closings. Internationally, we added 83 units net of closings. Worldwide, square footage increased approximately 46 million square feet, or 8%, during fiscal 2004.

The Wal-Mart Stores segment net sales amounted to approximately 68% of total Company net sales in fiscal 2004, which compares to 68.4% in fiscal 2003 and 68.2% in fiscal 2002. The SAM'S CLUB segment net sales amounted to approximately 13.5% of total Company net sales in fiscal 2004, which compares to 13.8% and 14.4% in fiscal 2003 and 2002, respectively. International sales accounted for approximately 18.5% of total Company net sales in fiscal 2004 compared with 17.8% in fiscal 2003 and 17.4% in fiscal 2002. The Wal-Mart Stores segment's net sales decline as a percentage of total Company net sales from fiscal 2003 to 2004 is largely the result of the favorable impact of foreign exchange on International Segment sales in fiscal 2004. The decrease in the SAM'S CLUB segment's sales as a percent of total Company sales in fiscal 2004 and 2003 when compared to fiscal 2002 resulted from the more rapid development of new stores in the International segment and the Wal-Mart Stores segment than the SAM'S CLUB segment, as well as the favorable impact of foreign exchange on International segment sales in fiscal 2004.

As we continue to add new stores domestically, we do so with an understanding that additional stores may take sales away from existing units. We estimate that comparative store sales in fiscal 2004, 2003 and 2002 were negatively impacted by the opening of new stores by approximately 1%. We expect that this effect of opening new stores on comparable store sales will continue during fiscal 2005 at a similar rate.

The net sales increase of 13% in fiscal 2003, when compared with fiscal 2002, resulted from our domestic and international expansion programs, along with comparative store sales increases. Domestic expansion during fiscal 2003 resulted from the addition of 131 new Discount Stores, Supercenters and Neighborhood Markets, as well as 122 conversions and/or relocations from Discount Stores to Supercenters. Additionally, we opened 25 SAM'S CLUBS in fiscal 2003. No domestic locations were closed during fiscal 2003. Internationally, we added 118 units net of closings. Worldwide, square footage increased approximately 45 million square feet, or 9%, during fiscal 2003.

#### *Costs and Expenses*

For fiscal 2004, our cost of sales decreased as a percentage of total net sales when compared to fiscal 2003, resulting in an overall increase of 0.2% in the Company's gross profit as a percentage of sales (our "gross margin") from 22.3% in fiscal 2003 to a gross margin of 22.5% in fiscal 2004. This increase in gross margin occurred primarily due to a favorable shift in mix of products sold and our global sourcing efforts (which resulted in lower cost for merchandise sold), offset by increased apparel markdowns (price reductions) in the second half of the year.

Due to the Company's program to convert many of our Discount Stores to Supercenters, which have full-line supermarkets, and the opening of additional Supercenters and Neighborhood Markets, we expect that food sales will increase as a percentage of our total net sales. Because food items generally carry a lower gross margin than our other merchandise, increasing food sales tends to have an unfavorable impact on our total gross margin. However, we feel that we can more than compensate for the effect on gross margin by increased food sales in the near term through reduced markdowns compared to fiscal 2004 and in the foreseeable future by continuing to leverage our global sourcing programs and continuing to challenge our internal and external cost structures.

Our total cost of sales as a percentage of our total net sales decreased for fiscal 2003 when compared to fiscal 2002, resulting in an increase in gross margin of 0.3% from 22.0% for fiscal 2002 to 22.3% in fiscal 2003. This increase in gross margin resulted primarily due to lower shrinkage (reduction of inventory due to theft or loss), reduced markdowns and a favorable shift in the mix of products sold.

Our operating, selling, general and administrative expenses ("SG&A expenses") increased 0.1% as a percentage of total net sales to 17.5% in fiscal 2004 when compared with 17.4% in fiscal 2003. Most of this increase resulted from an increase in insurance costs, including medical, property and casualty insurance, which increased 0.1% as a percentage of sales in fiscal 2004 compared with fiscal 2003. Management believes that the trend of increasing insurance costs will continue for at least the near future. The remainder of the increase is primarily attributable to the adoption of the Emerging Issues Task Force Issue No. 02-16, "Accounting by a Reseller for Cash Consideration Received from a Vendor" ("EITF 02-16") in fiscal 2004. Under EITF 02-16, advertising support received from suppliers that was historically accounted for as a reduction of advertising expense has been accounted for in the current year as a reduction of purchases. The adoption of EITF 02-16 resulted in an after-tax reduction in net income of approximately \$140 million, or \$0.03 per share.

Our SG&A expenses increased 0.2% as a percentage of total net sales to 17.4% in fiscal 2003 when compared with 17.2% in fiscal 2002. A substantial portion of that increase was attributable to increased insurance costs, including medical, property and casualty insurance, which increased by 0.1% as a percentage of our total net sales in fiscal 2003 compared to fiscal 2002. The remainder of the increase was primarily attributable to payroll and payroll-related costs.

### Interest Costs

For fiscal 2004, interest costs on debt and capital leases, net of interest income, as a percentage of net sales decreased 0.1% when compared to fiscal 2003. These decreases resulted primarily from lower average interest rates on our outstanding indebtedness and the positive impact of our fixed- to variable-interest rate-swap program.

For fiscal 2003, interest costs on debt and capital leases, net of interest income, as a percentage of net sales decreased 0.2% when compared to fiscal 2002. These decreases resulted from lower average interest rates on our outstanding indebtedness, less need for debt financing due to our efforts to reduce our average inventory balances and the positive impact of our fixed- to variable-interest rate-swap program. Our efforts to reduce average inventory balances included a focus on in-stock levels and reducing the amount of inventories in the back-room and in storage trailers at the store locations.

### Net Income

During fiscal 2004, we earned income from continuing operations of \$8.9 billion, a 13.3% increase over fiscal 2003. Our income from continuing operations for fiscal 2004 increased at a faster rate than net sales (11.6%) largely as a result of the increase in our gross margin and a reduction in net interest expense. Partially offsetting gross margin and net interest expense improvements were increased SG&A expenses in fiscal 2004 as discussed above, as well as a charge to earnings of \$150 million that we took to increase our valuation allowance related to deferred tax assets in Germany. As a result of new tax legislation in Germany in January 2004, we re-evaluated the recoverability of our deferred tax asset in Germany. This increase in our valuation allowance also caused our effective tax rate to increase from 35.2% in fiscal 2003 to 36.1% in fiscal 2004.

Our net income increased 13.8% over fiscal 2003 largely as a result of the 13.3% increase in income from continuing operations from fiscal 2003 to 2004 described above, in addition to the \$151 million after-tax gain on the sale of McLane.

During fiscal 2003, we earned income from continuing operations of \$7.8 billion, a 21.2% increase over fiscal 2002. Our income from continuing operations for fiscal 2003 increased at a rate faster than net sales (12.6%) largely as a result of the increase in our gross margin and a reduction in net interest expense. Partially offsetting gross margin and net interest expense improvements were increased SG&A expenses in fiscal 2003 as discussed above. Additionally, the comparison of net income earned in fiscal 2003 with the net income earned in fiscal 2002 is favorably impacted by an accounting change related to goodwill amortization as required by Financial Accounting Standards Board ("FASB") Statement No. 142, "Goodwill and Other Intangible Assets" ("FAS 142"). Our fiscal 2002 net income would have increased by \$235 million and basic earnings per share would have increased by \$0.06 if we had not amortized goodwill.

The change in accounting for goodwill had a positive impact on our effective income tax rate for fiscal 2003. Our effective tax rate for fiscal 2003 was 35.2% compared with 36.2% for fiscal 2002. Had the accounting change been applied to fiscal 2002, the effective tax rate would have been 35.5%.

As a result of the foregoing factors, our net income for fiscal 2003 increased by 20.7% over fiscal 2002.

### Wal-Mart Stores Segment

Fiscal Year	Segment Net Sales Increase from Prior Fiscal Year	Segment Operating Income (in millions)	Segment Operating Income Increase from Prior Fiscal Year	Operating Income as a Percentage of Segment Sales
<b>2004</b>	<b>10.9%</b>	<b>\$12,916</b>	<b>9.1%</b>	<b>7.4%</b>
2003	12.9%	11,840	16.2%	7.5%
2002	14.1%	10,189	6.2%	7.3%

The segment net sales increases in fiscal 2004 and fiscal 2003 from the prior fiscal years resulted from comparative store sales increases of 3.9% in fiscal 2004 and 5.7% in fiscal 2003, in addition to our expansion program in the Wal-Mart Stores segment. Comparative store sales in 2004 increased at a slower rate than 2003 due to a softer economy and softer apparel sales. Our expansion programs consist of opening new units, converting Discount Stores to Supercenters, relocations that result in more square footage, as well as enlargement of existing stores. Segment expansion during fiscal 2004 included the opening of 41 Discount Stores, 15 Neighborhood Markets and 213 Supercenters (including the conversion and/or relocation of 130 existing Discount Stores into Supercenters). One store closed in fiscal 2004. During fiscal 2004, our total expansion program added approximately 34 million, or 8.8%, of store square footage. Segment expansion during fiscal 2003 included the opening of 43 Discount Stores, 18 Neighborhood Markets and 192 Supercenters (including the conversion and/or relocation of 122 existing Discount Stores into Supercenters). During fiscal 2003, our total expansion program added approximately 32 million, or 9%, of store square footage in fiscal 2003.

The fiscal 2004 decrease in segment operating income as a percentage of segment sales compared with fiscal 2003 resulted from a 0.4% increase in SG&A expense, which was partially offset by a 0.3% increase in gross margin for the segment compared with fiscal 2003. The gross margin improvement was driven primarily by a favorable shift in mix of products sold and our global sourcing effort, despite

increased apparel markdowns in the second half of the year. Segment SG&A expenses in fiscal 2004 as a percentage of sales were higher than fiscal 2003 primarily due to increased insurance and advertising costs throughout the year.

The fiscal 2003 increase in segment operating income as a percentage of segment sales compared with fiscal 2002 resulted from an increase of 0.2% in the segment's gross margin, which was partially offset by an increase of 0.1% in the segment's SG&A expenses as a percentage of segment sales compared with fiscal 2002. The gross margin improvement was driven primarily by a favorable shift in mix of products and reductions in shrinkage and markdowns. Segment SG&A expenses in fiscal 2003 as a percentage of sales were higher than fiscal 2002 primarily due to increased self-insurance costs throughout the year and utility costs, primarily electricity, late in the fiscal year.

#### *SAM'S CLUB Segment*

<b>Fiscal Year</b>	<b>Segment Net Sales Increase from Prior Fiscal Year</b>	<b>Segment Operating Income (in millions)</b>	<b>Segment Operating Income Increase from Prior Fiscal Year</b>	<b>Operating Income as a Percentage of Segment Sales</b>
<b>2004</b>	<b>8.9%</b>	<b>\$1,126</b>	<b>10.1%</b>	<b>3.3%</b>
2003	7.8%	1,023	0.0%	3.2%
2002	9.7%	1,023	8.9%	3.5%

Growth in net sales for the SAM'S CLUB segment in fiscal 2004 and fiscal 2003 resulted from comparative Club sales increases of 5.3% in fiscal 2004 and 2.3% in fiscal 2003, along with our expansion program. Comparative store sales in 2004 increased at a higher rate than in 2003 primarily as the result of our renewed focus on the business member. Segment expansion consisted of the opening of 13 and 25 new Clubs in fiscal 2004 and fiscal 2003, respectively. Our total expansion program added approximately 2 million, or 3.6%, and approximately 4 million, or 6.4%, of additional Club square footage in fiscal 2004 and fiscal 2003, respectively.

Although segment operating income as a percentage of sales increased slightly in fiscal 2004 when compared to fiscal 2003, operating income increased 10.1% due to a significant increase in comparative store sales and from a reduction in expenses by working more closely with the Wal-Mart Stores segment.

The segment operating income as a percentage of sales decreased in fiscal 2003 when compared to fiscal 2002. Segment gross margin and other income, primarily membership income, as a percent of sales were unchanged when comparing fiscal 2003 with fiscal 2002. Segment operating expenses as a percent of sales increased by 0.3% in fiscal 2003. The increase in operating expenses was the result of increases in insurance, property taxes and food distribution costs.

#### *International Segment*

<b>Fiscal year</b>	<b>Segment Net Sales Increase from Prior Fiscal Year</b>	<b>Segment Operating Income (in millions)</b>	<b>Segment Operating Income Increase from Prior Fiscal Year</b>	<b>Operating Income as a Percentage of Segment Sales</b>
<b>2004</b>	<b>16.6%</b>	<b>\$2,370</b>	<b>18.6%</b>	<b>5.0%</b>
2003	15.0%	1,998	57.2%	4.9%
2002	10.5%	1,271	37.7%	3.6%

Our International segment is comprised of wholly owned operations in Argentina, Canada, Germany, South Korea, Puerto Rico and the United Kingdom, the operations of joint ventures in China and operations of majority-owned subsidiaries in Brazil and Mexico. Additionally, we own an unconsolidated 37.8% minority interest in The Seiyu, Ltd. ("Seiyu"), a retailer in Japan.

The fiscal 2004 increase in International net sales primarily resulted from both improved operating results and our international expansion program. In fiscal 2004, the International segment opened 83 units, net of relocations and closings, which added 9 million, or 8.5%, of additional unit square footage. Additionally, the impact of changes in foreign currency exchange rates favorably affected the translation of International segment sales into U.S. dollars by an aggregate of \$2 billion in fiscal 2004. The International segment's operating income included a favorable impact of \$81 million from foreign currency exchange rate fluctuations during the period.

The fiscal 2003 increase in International net sales primarily resulted from both improved operating results and our international expansion program. In fiscal 2003, including the units acquired in the Amigo acquisition, the International segment opened 118 units, net of relocations and closings, which added approximately 9 million, or 9.1%, of additional unit square footage. Additionally, the impact of changes in foreign currency exchange rates favorably affected the translation of International segment sales into U.S. dollars by an aggregate of \$47 million in fiscal 2003. The International segment's operating income included a favorable impact of \$17 million from foreign currency exchange rate fluctuations during the period.

Fiscal 2004 sales at our United Kingdom subsidiary, ASDA, made up 45.6% of the International segment net sales. Sales for ASDA included in the Company's consolidated income statement during fiscal 2004, 2003 and 2002 were \$21.7 billion, \$18.1 billion and \$15.3 billion, respectively.

The fiscal 2004 increase in segment operating income as a percentage of segment sales compared with fiscal 2003 resulted from a 0.4% improvement in gross margin offset by increases in operating expenses primarily due to the adoption of EITF 02-16. Under EITF 02-16, certain vendor funding was previously accounted for as a reduction of expenses, but is now accounted for as a reduction of inventory purchases. The improvement in gross margin was due to an overall increase as a percentage of the segment's net sales in general merchandise sales which carry a higher margin.

The fiscal 2003 increase in segment operating income as a percentage of segment sales resulted from a 0.4% improvement in gross margin from fiscal 2002 and a 0.8% reduction in operating expenses as a percentage of segment sales compared with fiscal 2002. The adoption of FAS 142 affected the comparison of operating income between fiscal 2003 and fiscal 2002 because, in accordance with FAS 142, we did not record any goodwill amortization expense during fiscal 2003. If the International segment expenses for fiscal 2002 were adjusted to remove the goodwill amortization expense recorded for that period (that would not have been recorded if FAS 142 had been in place in fiscal 2002), the reduction of operating expenses as a percentage of segment sales for fiscal 2003 compared with fiscal 2002 would have changed from the 0.8% reduction discussed above to a 0.2% reduction. Furthermore, the International segment's operating income in fiscal 2002 would have increased \$216 million to \$1.5 billion for fiscal 2002. If FAS 142 had been effective in fiscal 2002, the International segment's operating income increase from the prior fiscal year would have been reduced from 57.2% to 34.4%.

Our financial results from our foreign operations could be affected by factors such as changes in foreign currency exchange rates, weak economic conditions, changes in tax law and government regulations in the foreign markets in which the Company does business. The Company minimizes exposure to the risk of devaluation of foreign currencies by operating in local currencies.

### **Summary of Critical Accounting Policies**

Management strives to report the financial results of the Company in a clear and understandable manner, even though in some cases accounting and disclosure rules are complex and require us to use technical terminology. We follow generally accepted accounting principles in the United States in preparing our consolidated financial statements. These principles require us to make certain estimates and apply judgments that affect our financial position and results of operations as reflected in our financial statements. Management continually reviews its accounting policies, how they are applied and how they are reported and disclosed in our financial statements. Following is a summary of our more significant accounting policies and how they are applied in preparation of the financial statements.

#### *Inventories*

We value our inventories at the lower of cost or market as determined primarily by the retail method of accounting, using the last-in, first-out ("LIFO") method for substantially all U.S. merchandise inventories, except SAM'S CLUB merchandise, which is based on average cost using the LIFO method. Inventories for foreign operations are primarily valued by the retail method of accounting and are stated using the first-in, first-out ("FIFO") method.

Under the retail method, inventory is stated at cost, which is determined by applying a cost-to-retail ratio to each merchandise grouping's retail value. The cost-to-retail ratio is based on the fiscal-year purchase activity for each store location. The retail method requires that Management make certain judgments and estimates that may significantly impact the ending inventory valuation at cost, as well as the amount of gross margin recognized. The judgments made include the recording of markdowns used to sell through inventory and shrinkage. Markdowns designated for clearance activity are recorded at the time of the decision rather than at the point of sale, when Management determines the salability of inventory has diminished. Factors considered in the determination of markdowns include current and anticipated demand, customer preferences, age of merchandise, as well as seasonal and fashion trends. Changes in weather patterns and customer preferences related to fashion trends could cause material changes in markdowns year over year.

The Company records a LIFO provision each quarter for the estimated annual effect of inflation, and these estimates are adjusted to actual results determined at year-end. Our LIFO provision is calculated based on inventory levels, markup rates and internally generated retail price indices except for grocery items, for which we use a consumer price index. Our accumulated LIFO reserve pertains to grocery items and is immaterial to our financial statements.

The Company provides for estimated inventory losses (shrinkage) between physical inventory counts on the basis of a percentage of sales. The provision is adjusted annually to reflect the historical trend of the actual physical inventory count results. Historically, shrinkage has not been volatile.

#### *Impairment of Assets*

We evaluate long-lived assets other than goodwill for indicators of impairment under the provisions of Financial Accounting Standards Board Statement No. 144, "Accounting for the Impairment of Disposal of Long-Lived Assets," whenever events or changes in

circumstances indicate that the carrying value may not be recoverable. Management's judgments regarding the existence of impairment indicators are based on market conditions and our operational performance, such as operating profit and cash flows. The variability of these factors depends on a number of conditions, including uncertainty about future events, and thus our accounting estimates may change from period to period. These factors could cause Management to conclude that impairment indicators exist and require that impairment tests be performed, which could result in Management determining that the value of long-lived assets is impaired, resulting in a write-down of the long-lived assets.

Goodwill is evaluated under the provisions of Financial Accounting Standards Board Statement No. 142, "Accounting for Goodwill and Other Intangibles," for impairment annually or whenever events or changes in circumstances indicate that the value of certain goodwill may be impaired. The evaluation requires the Company to make judgments relating to future cash flows, growth rates, economic and market conditions. These evaluations are based on discounted cash flows that incorporate the impact of existing Company businesses. Historically, the Company has generated sufficient returns to recover the cost of goodwill and other intangible assets. Because of the nature of the factors used in these tests, if different conditions occur in future periods, future operating results could be materially impacted.

#### *Self-Insurance*

We use a combination of insurance, self-insured retention and/or self-insurance for a number of risks including workers' compensation, general liability, vehicle liability and the Company's portion of employee-related health care benefits. Liabilities associated with the risks that we retain are estimated in part by considering historical claims experience, including both frequency and severity, demographic factors, and other assumptions. In calculating our liability, we analyze our historical trends, including loss development, and apply appropriate loss-development factors to the incurred costs associated with the claims made against our self-insured program. The estimated accruals for these liabilities could be significantly affected if future occurrences or loss development differ from these assumptions or historical trends. For example, a 1% increase or decrease to the assumptions for claim costs, loss development factors and healthcare costs would increase or decrease our self-insurance accrual by \$17.5 million, \$44.8 million and \$12 million, respectively.

For a complete listing of our accounting policies, please see Note 1 to our consolidated financial statements that appear after this discussion.

### **Liquidity and Capital Resources**

#### *Overview*

Cash flows provided by operating activities of continuing operations provide us with a significant source of liquidity. Our cash flows from operating activities were \$15.9 billion in fiscal 2004, up from \$12.9 billion in fiscal 2003. Operating cash flows from continuing operations increased during fiscal 2004 compared with fiscal 2003 primarily due to an increase in net income, improved inventory management, accounts payable growing at a faster rate than inventories, and a decrease in accounts receivable of \$373 million compared to an increase in fiscal 2003 of \$159 million due to the collection of foreign taxes receivable. Accrued liabilities increased by \$1.8 billion compared with an increase of \$1.1 billion in fiscal 2003 due to increases in accruals for self-insurance, salaries, interest and taxes.

In fiscal 2004, we paid dividends of \$1.6 billion, made \$10.3 billion in capital expenditures, paid \$5 billion to repurchase shares of our stock on the open market, received \$4.1 billion from the issuance of long-term debt and paid \$3.5 billion of long-term debt. In addition, we received \$1.5 billion from the sale of McLane.

#### *Working Capital*

Current liabilities exceeded current assets at January 31, 2004, by \$3 billion, an increase of \$1.2 billion from the prior year. Our ratio of current assets to current liabilities was 0.9 to 1 at January 31, 2004 and 2003. At January 31, 2004, we had total assets of \$104.9 billion compared with total assets of \$94.8 billion at January 31, 2003.

#### *Company Stock Repurchase Program and Common Stock Dividends*

In June 2003, our Board of Directors reset the common stock repurchase program authorization so that the Company may make future repurchases of its stock of up to \$5 billion. In January 2004, our Board of Directors authorized a new \$7 billion share repurchase program, separate from and replacing the \$5 billion previously authorized. During fiscal 2004, we repurchased 91.9 million shares of our common stock for approximately \$5 billion. At January 31, 2004, we had approximately \$6.6 billion remaining on our common stock repurchase authorization. Shares purchased under our share repurchase program are constructively retired and returned to unissued status. We consider several factors in determining when to make share repurchases, including among other things our cost of equity, our after-tax cost of borrowing, our debt to total capitalization targets and our expected future cash needs. There is no expiration date or other restriction governing the period over which we can make our share repurchases under the program.

We paid dividends totaling approximately \$1.6 billion or \$0.36 per share in fiscal 2004. In March 2004, our Board of Directors authorized a 44% increase in our dividend to \$0.52 per share for fiscal 2005. The Company has increased its dividend every year since it first declared a dividend in March 1974.



### Contractual Obligations and Other Commercial Commitments

The following table sets forth certain information concerning our obligations and commitments to make contractual future payments, such as debt and lease agreements, and contingent commitments.

(in millions)	Payments Due During Fiscal Years Ending January 31,				
	Total	2005	2006-2007	2008-2009	Thereafter
<b>Recorded Contractual Obligations:</b>					
Long-term debt	\$20,006	\$ 2,904	\$ 5,106	\$ 2,609	\$ 9,387
Commercial paper	3,267	3,267	—	—	—
Capital lease obligations	5,086	430	846	808	3,002
<b>Unrecorded Contractual Obligations:</b>					
Non-cancelable operating leases	8,665	665	1,250	1,072	5,678
Undrawn lines of credit	5,279	3,029	2,250	—	—
Trade letters of credit	2,006	2,006	—	—	—
Standby letters of credit	1,396	1,396	—	—	—
Purchase obligations	32,928	10,502	13,550	8,855	21
<b>Total commercial commitments</b>	<b>\$78,633</b>	<b>\$24,199</b>	<b>\$ 23,002</b>	<b>\$ 13,344</b>	<b>\$ 18,088</b>

Purchase obligations include all legally binding contracts such as firm commitments for inventory purchases, utility purchases, as well as capital expenditures, software acquisition/license commitments and legally binding service contracts. Purchase orders for the purchase of inventory and other services are not included in the table above. Purchase orders represent authorizations to purchase rather than binding agreements. For the purposes of this table, contractual obligations for purchase of goods or services are defined as agreements that are enforceable and legally binding and that specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. Our purchase orders are based on our current inventory needs and are fulfilled by our suppliers within short time periods. We also enter into contracts for outsourced services; however, the obligations under these contracts are not significant and the contracts generally contain clauses allowing for cancellation without significant penalty.

The expected timing for payment of the obligations discussed above is estimated based on current information. Timing of payments and actual amounts paid may be different depending on the timing of receipt of goods or services or changes to agreed-upon amounts for some obligations.

In addition to the amounts discussed and presented above, the Company has made certain guarantees as discussed below for which the timing of payment, if any, is unknown.

In connection with the expansion of our distribution network within Canada, we have guaranteed specific obligations of a third-party logistics provider. In the unlikely event this provider fails to perform its financial obligations regarding certain Wal-Mart-related projects, we would be obligated to pay an amount of up to \$110 million. These agreements cover periods of up to 10 years.

In connection with debt financing of \$500 million, we could be liable for an early-termination payment under a related interest rate swap arrangement if certain unlikely events were to occur. At January 31, 2004, the termination payment was \$88 million. This arrangement expires in fiscal 2011.

In connection with the development of our grocery distribution network in the United States, we have agreements with third parties which would require us to purchase or assume the leases on certain unique equipment in the event the agreements are terminated. These agreements, which can be terminated by either party at will, cover up to a five-year period and obligate the Company to pay up to approximately \$148 million in the unlikely termination of some or all of these agreements.

The Company has entered into lease commitments for land and buildings for 11 future locations. These lease commitments with real estate developers provide for minimum rentals for 20 years, excluding renewal options, which, if consummated based on current cost estimates, will approximate \$17 million annually over the lease terms.

There are no recourse provisions which would enable us to recover any amounts paid under the above guarantees from third parties. No liability has been recorded in our financial statements for these guarantees.

### Capital Resources

Management believes that cash flows from operations and proceeds from the sale of commercial paper will be sufficient to finance any seasonal buildups in merchandise inventories and meet other cash requirements. If our operating cash flows are not sufficient to pay the increased dividend and to fund our capital expenditures, we anticipate funding any shortfall in these expenditures with a



combination of commercial paper and long-term debt. We plan to refinance existing long-term debt as it matures and may desire to obtain additional long-term financing for other corporate purposes. We anticipate no difficulty in obtaining long-term financing in view of our credit rating and favorable experiences in the debt market in the recent past. At January 31, 2004, Standard & Poors ("S&P"), Moody's Investors Services, Inc. and Fitch Ratings rated our commercial paper A-1+, P-1 and F1+ and our long-term debt AA, Aa2 and AA, respectively. As of January 31, 2004, we had \$6 billion of debt securities remaining under a shelf registration statement previously filed with the United States Securities and Exchange Commission ("SEC") which are eligible for issuance, subject to market conditions in the public markets. Subsequent to fiscal 2004 year-end, in February and March 2004, we sold notes totaling \$1.25 billion and \$750 million, respectively, under that shelf registration statement. These notes bear interest of 4.125% and mature in February 2011. The proceeds from the sale of these notes were used for general corporate purposes. After consideration of this debt issuance, we are permitted to sell up to \$4 billion of public debt under our shelf registration statement.

At January 31, 2004, the ratio of our debt to our total capitalization was 38%. Historically, our objective has been to maintain a debt to total capitalization ratio of approximately 40%.

#### *Future Expansion*

In the United States, we plan to open approximately 40 to 45 new Discount Stores and approximately 230 to 240 new Supercenters in fiscal 2005. Conversions and/or relocations of existing Discount Stores will account for approximately 150 of the new Supercenters, with the balance being new locations. We also plan to further expand our Neighborhood Market concept by adding approximately 20 to 25 new units during fiscal 2005. The SAM'S CLUB segment plans to open 30 to 35 Clubs during fiscal 2005, of which approximately 20 will be relocations or expansions of existing SAM'S CLUBS. In order to serve these and future developments, the Company plans to construct five new distribution centers in the next fiscal year. Internationally, the Company plans to open 130 to 140 new units, of which approximately 30 will be conversions and/or relocations. Projects scheduled to open within the International segment include new stores and Clubs as well as relocations of a few existing units. The units also include restaurants, specialty apparel retail stores and supermarkets. The planned square footage growth for fiscal 2005 represents approximately 50 million square feet of new retail space, which is more than an 8% increase over current square footage. We estimate that our capital expenditures in fiscal 2005 relating to these new units and distribution centers will be approximately \$12 billion in the aggregate. We plan to finance expansion primarily out of cash flows from operations and with a combination of commercial paper and the issuance of long-term debt.

Subsequent to fiscal year-end 2004, in February 2004, the Company completed its purchase of Bompreco S.A. Supermercados do Nordeste ("Bompreco"), a supermarket chain in northern Brazil with 118 hypermarkets, supermarkets and mini-markets. The purchase price was approximately \$300 million. The results of operations for Bompreco will be consolidated beginning in fiscal 2005.

#### **Market Risk**

Market risks relating to our operations include changes in interest rates and changes in foreign exchange rates. We enter into interest rate swaps to minimize the risks and costs associated with financing activities, as well as to maintain an appropriate mix of fixed- and floating-rate debt. Our preference is to maintain approximately 50% of our debt portfolio, including interest rate swaps in floating-rate debt. The swap agreements are contracts to exchange fixed- or variable-rates for variable- or fixed-interest rate payments periodically over the life of the instruments. The following tables provide information about our derivative financial instruments and other financial instruments that are sensitive to changes in interest rates. For debt obligations, the table presents principal cash flows and related weighted-average interest rates by expected maturity dates. For interest rate swaps, the table presents notional amounts and interest rates by contractual maturity dates. The applicable floating-rate index is included for variable-rate instruments. The fair values of all instruments presented are based on expected interest rate curves. Current fair values may not be indicative of future performance due to changes in market conditions.

### Interest Rate Position as of January 31, 2004

Principal Amount by Expected Maturity  
Average Interest Rate

								Fair value
(Dollar amounts in millions)	2005	2006	2007	2008	2009	Thereafter	Total	1/31/04
<b>Liabilities</b>								
U.S. dollar ("USD") denominated long-term debt including current portion								
Fixed-rate debt	\$2,904	\$1,313	\$2,293	\$1,572	\$1,037	\$ 7,067	\$16,186	\$ 17,511
Average interest rate	5.9%	6.2%	5.9%	6.0%	6.2%	6.8%	6.4%	
Variable-rate debt	\$ 500	\$1,500	—	—	—	—	\$ 2,000	\$ 2,000
Interest rate – Rate A minus 0.03%								
Great Britain pound ("GBP") denominated long-term debt including current portion								
Fixed-rate debt	—	—	—	—	—	\$ 1,820	\$ 1,820	\$ 1,838
Average interest rate	—	—	—	—	—	5.6%	5.6%	

### Interest Rate Position as of January 31, 2004

Notional Amount by Expected Maturity  
Average Interest Swap Rate

								Fair value
(Dollar amounts in millions)	2005	2006	2007	2008	2009	Thereafter	Total	1/31/04
<b>Interest Rate Derivative Financial Instruments</b>								
<b>Related to Debt</b>								
Interest rate swaps –								
Pay variable/receive fixed	\$1,250	\$ —	\$ —	\$ —	\$ —	\$ 3,250	\$4,500	\$388
Weighted-average rate paid –								
Rate B plus 1.70%								
Weighted-average fixed rate received	6.6%	—	—	—	—	6.9%	6.8%	
Interest rate swaps –								
Pay variable/receive fixed	\$ 500	\$1,097	\$1,750	—	—	\$ 445	\$3,792	\$309
Weighted-average rate paid –								
Rate A plus 0.84%								
Weighted-average fixed rate received	7.5%	5.1%	5.8%	—	—	7.3%	6.0%	
Interest rate swap –								
Pay fixed/receive variable	—	\$1,500	—	—	—	—	\$1,500	(\$ 16)
Weighted-average rate paid	—	1.9%	—	—	—	—	1.9%	
Weighted-average fixed rate received – Rate A minus 0.04%								

Rate A – three-month U.S. LIBOR

Rate B – six-month U.S. LIBOR

**Interest Rate Position as of January 31, 2003**Principal Amount by Expected Maturity  
Average Interest Rate

								Fair value
(Dollar amounts in millions)	2004	2005	2006	2007	2008	Thereafter	Total	1/31/03
<b>Liabilities</b>								
USD denominated long-term debt including current portion								
Fixed-rate debt	\$4,027	\$2,289	\$1,254	\$2,018	\$1,575	\$ 6,195	\$17,358	\$ 16,932
Average interest rate	5.6%	6.2%	6.2%	6.2%	6.6%	6.9%	6.3%	
Variable-rate debt	\$ 500	—	\$1,500	—	—	—	\$ 2,000	\$ 2,000
Interest rate – Rate A minus 0.03%								
Great Britain pound denominated long-term debt including current portion								
Fixed-rate debt	\$ 9	\$ 94	—	\$ 37	—	\$ 1,635	\$ 1,775	\$ 1,862
Average interest rate	9.6%	4.4%	—	8.4%	—	5.2%	5.3%	

**Interest Rate Position as of January 31, 2003**Notional Amount by Expected Maturity  
Average Interest Swap Rate

								Fair value
(Dollar amounts in millions)	2004	2005	2006	2007	2008	Thereafter	Total	1/31/03
<b>Interest Rate Derivative Financial Instruments</b>								
<b>Related to Debt</b>								
Interest rate swaps –								
Pay variable/receive fixed	\$ —	\$1,250	\$ —	\$ —	\$ —	\$ 3,250	\$4,500	\$ 426
Weighted-average rate paid –								
Rate B plus 1.70%								
Weighted-average fixed rate received	—	6.6%	—	—	—	6.9%	6.8%	
Interest rate swaps –								
Pay variable/receive fixed	—	\$ 500	\$1,097	\$1,750	—	\$ 445	\$3,792	\$ 377
Weighted-average rate paid –								
Rate A plus 0.84%								
Weighted-average fixed rate received	—	7.5%	5.1%	5.8%	—	7.3%	6.0%	

Rate A – three-month U.S. LIBOR

Rate B – six-month U.S. LIBOR

We hold currency swaps to hedge our net investment in the United Kingdom. In addition to the instruments in the following table, we have designated debt of approximately GBP 1 billion as a hedge of our net investment in the United Kingdom. The following tables provide information about our cross-currency interest rate swap agreements by functional currency and present the information in United States dollar equivalents. For these instruments the tables present notional amounts, exchange rates and interest rates by contractual maturity date.

We also hold cross-currency swaps which hedge the foreign currency risk of debt denominated in currencies other than the local currency.

### Foreign Currency Exchange Rate Position as of January 31, 2004

Principal Amount by Expected Maturity  
Average Interest Rate

	2005	2006	2007	2008	2009	Thereafter	Total	Fair value 1/31/04
<i>(Dollar amounts in millions)</i>								
<b>Liabilities</b>								
USD denominated long-term debt including current portion								
Fixed-rate debt	\$ —	\$ —	\$325	\$ —	\$ —	\$ —	\$ 325	\$ 409
Average interest rate	—	—	5.6%	—	—	—	5.6%	
Great Britain pound denominated long-term debt including current portion								
Fixed-rate debt	—	—	—	—	—	\$ 1,820	\$1,820	\$ 1,838
Average interest rate	—	—	—	—	—	5.6%	5.6%	

### Foreign Currency Exchange Rate Position as of January 31, 2004

Notional Amount by Expected Maturity  
Average Interest Swap Rate

	2005	2006	2007	2008	2009	Thereafter	Total	Fair value 1/31/04
<i>(Dollar amounts in millions)</i>								
<b>Currency Swap Agreements</b>								
Great Britain pounds								
Notional amount	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 1,250	\$1,250	\$29
Average contract rate	—	—	—	—	—	0.6	0.6	
Fixed rate received – USD rate	—	—	—	—	—	7.4%	7.4%	
Fixed rate paid – Great Britain pound rate	—	—	—	—	—	5.8%	5.8%	
Canadian dollars								
Notional amount	—	—	\$325	—	—	—	\$ 325	(\$54)
Average contract rate	—	—	1.5	—	—	—	1.5	
Fixed rate received – USD rate	—	—	5.6%	—	—	—	5.6%	
Fixed rate paid – Canadian dollar rate	—	—	5.7%	—	—	—	5.7%	
Japanese yen								
Notional amount	—	—	—	—	\$432	\$ —	432	(\$46)
Average contract rate	—	—	—	—	120	—	120	
Fixed rate received – USD rate	—	—	—	—	3.6%	—	3.6%	
Fixed rate paid – Japanese yen rate	—	—	—	—	0.2%	—	0.2%	

### Foreign Currency Exchange Rate Position as of January 31, 2003

Principal Amount by Expected Maturity  
Average Interest Rate

<i>(Dollar amounts in millions)</i>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>Thereafter</u>	<u>Total</u>	<u>Fair Value 1/31/03</u>
<b>Liabilities</b>								
USD denominated long-term debt including current portion								
Fixed-rate debt	\$ —	\$ —	\$ —	\$325	\$ —	\$ —	\$ 325	\$ 342
Average interest rate	—	—	—	5.6%	—	—	5.6%	
Great Britain pound denominated long-term debt including current portion								
Fixed-rate debt	9	94	—	37	—	1,635	1,775	1,862
Average interest rate	9.6%	4.4%	—	8.4%	—	5.2%	5.3%	

### Foreign Currency Exchange Rate Position as of January 31, 2003

Notional Amount by Expected Maturity  
Average Interest Swap Rate

<i>(Dollar amounts in millions)</i>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>Thereafter</u>	<u>Total</u>	<u>Fair value 1/31/03</u>
<b>Currency Swap Agreements</b>								
Great Britain pounds								
Notional amount	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 1,250	\$1,250	\$126
Average contract rate	—	—	—	—	—	0.6	0.6	
Fixed rate received – USD rate	—	—	—	—	—	7.4%	7.4%	
Fixed rate paid –								
Great Britain pound rate	—	—	—	—	—	5.8%	5.8%	
Canadian dollars								
Notional amount	—	—	—	\$325	—	—	\$ 325	\$ 8
Average contract rate	—	—	—	1.5	—	—	1.5	
Fixed rate received – USD rate	—	—	—	5.6%	—	—	5.6%	
Fixed rate paid – Canadian dollar rate	—	—	—	5.7%	—	—	5.7%	
Japanese yen								
Notional amount	—	—	—	—	—	\$ 432	\$ 432	\$ 2
Average contract rate	—	—	—	—	—	120	120	
Fixed rate received – USD rate	—	—	—	—	—	3.6%	3.6%	
Fixed rate paid – Japanese yen rate	—	—	—	—	—	0.2%	0.2%	

The fair values of the currency swap agreements are recorded in the Consolidated Balance Sheets within the line “other assets and deferred charges.”

## New Accounting Pronouncements

On February 1, 2003, the Company adopted the expense recognition provisions of FAS No. 123, "Accounting and Disclosure of Stock-Based Compensation" ("FAS 123"). Under FAS 123, compensation expense is recognized based on the fair value of stock options granted using the Black Scholes option valuation model. The Company has chosen to retroactively restate its results of operations for the accounting change. Following the provisions of FAS 123, fiscal 2004, 2003 and 2002 includes a reduction of net income of \$102 million, \$84 million and \$79 million, respectively, or \$0.02 in each fiscal year.

In August 2001, the FASB issued FAS No. 143, "Accounting for Asset Retirement Obligations." This statement requires the Company to recognize the fair value of a liability associated with the cost the Company would be obligated to incur in order to retire an asset at some point in the future. The liability would be recognized in the period in which it is incurred and can be reasonably estimated. The standard is effective for fiscal years beginning after June 15, 2002. The Company adopted this standard at the beginning of this fiscal year. The adoption of this standard did not have a material impact in fiscal 2004.

In July 2002, the FASB issued FAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("FAS 146"). FAS 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and replaces the FASB's Emerging Issues Task Force ("EITF") 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." FAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. FAS 146 also establishes that fair value is the objective for initial measurement of the liability. The statement is effective for exit or disposal activities initiated after December 31, 2002. The adoption of FAS 146 in fiscal 2004 did not have a material impact on the Company's financial statements.

In April 2003, the FASB issued FAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" ("FAS 149"). This statement amends and clarifies accounting for derivative instruments and is effective for contracts entered into or modified after June 30, 2003. The adoption of FAS 149 did not have a material impact on our financial statements.

In May 2003, the FASB issued FAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" ("FAS 150"). FAS 150 clarifies the classification and measurement of certain financial instruments with characteristics of both liabilities and equity and is effective for financial instruments entered into or modified after May 31, 2003, or otherwise for the first interim period beginning after June 15, 2003. The adoption of FAS 150 did not have a material impact on our financial statements.

In November 2002, the EITF reached a consensus on EITF 02-16, "Accounting by a Reseller for Cash Consideration Received from a Vendor" ("EITF 02-16"), which addresses the accounting for "Cash Consideration" (which includes slotting fees, cooperative advertising payments, etc.) and "Rebates or Refunds" from a vendor that are payable only if the merchant completes a specified cumulative level of purchases or remains a customer of the vendor for a specified period of time. EITF 02-16 establishes an overall presumption that all consideration from vendors should be accounted for as a reduction of item cost and be recognized at the time the related inventory is sold. EITF 02-16 provides that the overall presumption can be overcome in two ways. First, consideration representing a payment for assets or services delivered to a vendor should be classified as revenue or other income. Second, consideration representing a reimbursement of a specific, incremental, identifiable cost incurred in selling the vendor's product should be recorded as a reduction of that expense. Wal-Mart had historically recorded certain consideration from vendors as a reduction of expenses, primarily advertising. We adopted EITF 02-16 on February 1, 2003, and now account for this consideration as a reduction of purchases. The adoption of EITF 02-16 resulted in an after-tax impact of approximately \$140 million, or \$0.03 per share.

In November 2003, the FASB ratified the EITF's consensus on Issue 03-10, "Application of Issue 02-16 by Resellers to Sales Incentives Offered to Consumers by Manufacturers" ("EITF 03-10"), which amends EITF 02-16. This consensus requires that if certain criteria are met, consideration received by a reseller in the form of reimbursement from a vendor for honoring the vendor's sales incentives offered directly to consumers, such as manufacturer's coupons, should not be recorded as a reduction of the cost of the reseller's purchases from the vendor. The adoption of EITF 03-10, which is required for us on February 1, 2004, did not have a material impact on our financial statements.

In January 2003, the FASB issued FASB Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46"), as amended by FIN 46-R. This interpretation addresses the consolidation of business enterprises ("variable interest entities") to which the usual condition (ownership of a majority voting interest) of consolidation does not apply. This interpretation focuses on financial interests that indicate control. It concludes that in the absence of clear control through voting interests or sufficient equity, a company's exposure ("variable interest") to the economic risks and potential rewards from the variable interest entity's assets and activities are the best evidence of control. Variable interests are rights and obligations that convey economic gains or losses from changes in the values of the variable interest entity's assets and liabilities. Variable interests may arise from financial instruments, service contracts, nonvoting ownership interests and other arrangements. If an enterprise holds a majority of the variable interests of an entity, it would be considered the primary beneficiary. The primary beneficiary would be required to consolidate the assets, liabilities and the results of

operations of the variable interest entity in its financial statements. FIN 46-R applies immediately to variable interest entities that were created or for which control was obtained after January 31, 2003, at the end of the first interim period ended after December 15, 2003, for variable interest entities that are special purpose entities and at the end of the first interim period ending after March 15, 2004, for all other entities established on or before January 31, 2003.

The Company has adopted the provisions of FIN 46-R for the year ending January 31, 2004, for any variable interest entities created after January 31, 2003, and any variable interest entities that are special purpose entities with no impact on our financial statements. The Company will adopt the provisions of FIN 46-R for our financial statements for the first quarter ending April 30, 2004, for any variable interest entities created before February 1, 2003. As the net sales and total assets of entities affected by FIN 46-R represent less than 1% of the Company's net sales and total assets, we do not expect the adoption of this provision of FIN 46-R to have a material impact on our financial statements.

### **Forward-Looking Statements**

This Annual Report contains statements that Wal-Mart believes are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, which statements are intended to enjoy the protection of the safe harbor for forward-looking statements provided by that Act. These forward-looking statements generally can be identified by use of phrases such as "believe," "expect," "anticipate," "intend," "plan," "foresee" or other similar words or phrases. Similarly, descriptions of our objectives, strategies, plans, goals or targets are also forward-looking statements. These statements discuss, among other things, expected growth, future revenues, future cash flows, future capital expenditures, future performance and the anticipation and expectations of Wal-Mart and its Management as to future occurrences and trends. These forward-looking statements are subject to risks, uncertainties and other factors, in the United States and internationally, that could affect our financial performance, business strategy, plans, goals and objectives. Those risks, uncertainties and other factors include the cost of goods, the cost of electricity and other energy requirements, competitive pressures, inflation, consumer spending patterns and debt levels, currency exchange fluctuations, trade restrictions, changes in tariff and freight rates, unemployment levels, interest rate fluctuations and other capital market conditions, weather patterns, natural disasters, social and political conditions such as war, political unrest and terrorism, and other risks. Moreover, we typically earn a disproportionate part of our annual operating income in the fourth quarter as a result of the seasonal buying patterns. Those buying patterns are difficult to forecast with certainty. We discuss certain of these matters more fully in other of our filings with the SEC, including our Annual Report on Form 10-K. We filed our Annual Report on Form 10-K for our fiscal year 2004 with the SEC on or about April 9, 2004. Actual results may materially differ from anticipated results described in these statements as a result of changes in facts, assumptions not being realized or other circumstances. You are urged to consider all of these risks, uncertainties and other factors carefully in evaluating the forward-looking statements. As a result of these matters, including changes in facts, assumptions not being realized or other circumstances, our actual results may differ materially from historical results or from anticipated results expressed or implied in these forward-looking statements. The forward-looking statements included in this Annual Report are made only as of the date of this report, and we undertake no obligation to update these forward-looking statements to reflect subsequent events or circumstances.

## Consolidated Statements of Income

(Amounts in millions except per share data)

Fiscal years ended January 31,

	2004	2003	2002
<b>Revenues:</b>			
Net sales	\$256,329	\$229,616	\$204,011
Other income, net	2,352	1,961	1,812
	<u>258,681</u>	<u>231,577</u>	<u>205,823</u>
<b>Costs and Expenses:</b>			
Cost of sales	198,747	178,299	159,097
Operating, selling, general and administrative expenses	44,909	39,983	35,147
<b>Operating Profit</b>	<u>15,025</u>	<u>13,295</u>	<u>11,579</u>
<b>Interest:</b>			
Debt	729	799	1,080
Capital leases	267	260	274
Interest income	(164)	(132)	(171)
	<u>832</u>	<u>927</u>	<u>1,183</u>
<b>Income from Continuing Operations Before Income Taxes and Minority Interest</b>	<u>14,193</u>	<u>12,368</u>	<u>10,396</u>
<b>Provision for Income Taxes:</b>			
Current	4,941	3,883	3,625
Deferred	177	474	140
	<u>5,118</u>	<u>4,357</u>	<u>3,765</u>
<b>Income from Continuing Operations Before Minority Interest</b>	<u>9,075</u>	<u>8,011</u>	<u>6,631</u>
<b>Minority Interest</b>	<u>(214)</u>	<u>(193)</u>	<u>(183)</u>
<b>Income from Continuing Operations</b>	<u>8,861</u>	<u>7,818</u>	<u>6,448</u>
<b>Income from Discontinued Operation, net of tax</b>	<u>193</u>	<u>137</u>	<u>144</u>
<b>Net Income</b>	<u>\$ 9,054</u>	<u>\$ 7,955</u>	<u>\$ 6,592</u>
<b>Net Income Per Common Share:</b>			
<b>Basic Net Income Per Common Share:</b>			
Income from continuing operations	\$ 2.03	\$ 1.77	\$ 1.45
Income from discontinued operation	0.05	0.03	0.03
<b>Net Income Per Common Share</b>	<u>\$ 2.08</u>	<u>\$ 1.80</u>	<u>\$ 1.48</u>
<b>Average Number of Common Shares</b>	<u>4,363</u>	<u>4,430</u>	<u>4,465</u>
<b>Diluted Net Income Per Common Share:</b>			
Income from continuing operations	\$ 2.03	\$ 1.76	\$ 1.44
Income from discontinued operation	0.04	0.03	0.03
<b>Net Income Per Common Share</b>	<u>\$ 2.07</u>	<u>\$ 1.79</u>	<u>\$ 1.47</u>
<b>Average Number of Common Shares</b>	<u>4,373</u>	<u>4,446</u>	<u>4,481</u>
<b>Dividends Per Common Share</b>	<u>\$ 0.36</u>	<u>\$ 0.30</u>	<u>\$ 0.28</u>

See accompanying notes.



**Consolidated Balance Sheets***(Amounts in millions)*

January 31,

	2004	2003
<b>Assets</b>		
<i>Current Assets:</i>		
Cash and cash equivalents	\$ 5,199	\$ 2,736
Receivables	1,254	1,569
Inventories	26,612	24,401
Prepaid expenses and other	1,356	837
Current assets of discontinued operation	—	1,179
<b>Total Current Assets</b>	<b>34,421</b>	<b>30,722</b>
<i>Property, Plant and Equipment, at Cost:</i>		
Land	12,699	11,202
Buildings and improvements	38,966	33,345
Fixtures and equipment	17,861	15,640
Transportation equipment	1,269	1,099
	<b>70,795</b>	<b>61,286</b>
Less accumulated depreciation	15,594	13,116
Property, plant and equipment, net	55,201	48,170
<i>Property Under Capital Lease:</i>		
Property under capital lease	5,092	4,814
Less accumulated amortization	1,763	1,610
Property under capital leases, net	3,329	3,204
<i>Other Assets and Deferred Charges:</i>		
Goodwill	9,882	9,389
Other assets and deferred charges	2,079	2,594
Other assets of discontinued operation	—	729
<b>Total Assets</b>	<b>\$104,912</b>	<b>\$94,808</b>
<b>Liabilities and Shareholders' Equity</b>		
<i>Current Liabilities:</i>		
Commercial paper	\$ 3,267	\$ 1,079
Accounts payable	19,332	16,829
Accrued liabilities	10,342	8,857
Accrued income taxes	1,377	748
Long-term debt due within one year	2,904	4,536
Obligations under capital leases due within one year	196	176
Current liabilities of discontinued operation	—	294
<b>Total Current Liabilities</b>	<b>37,418</b>	<b>32,519</b>
Long-term debt	17,102	16,597
Long-term obligations under capital leases	2,997	3,000
Deferred income taxes and other	2,288	1,859
Liabilities of discontinued operation	—	10
Minority interest	1,484	1,362
<i>Shareholders' Equity:</i>		
Preferred stock (\$0.10 par value; 100 shares authorized, none issued)	—	—
Common stock (\$0.10 par value; 11,000 shares authorized, 4,311 and 4,395 issued and outstanding in 2004 and 2003, respectively)	431	440
Capital in excess of par value	2,135	1,954
Retained earnings	40,206	37,576
Other accumulated comprehensive income	851	(509)
<b>Total Shareholders' Equity</b>	<b>43,623</b>	<b>39,461</b>
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$104,912</b>	<b>\$94,808</b>

See accompanying notes.

## Consolidated Statements of Shareholders' Equity

	Number of	Common	Capital in	Retained	Other	
	Shares	Stock	Excess of Par Value	Earnings	Accumulated Comprehensive Income	Total
<i>(Amounts in millions except per share data)</i>						
<b>Balance – January 31, 2001</b>	4,470	\$ 447	\$ 1,660	\$29,984	(\$ 684)	\$31,407
Comprehensive Income						
Net income from continuing operations				6,448		6,448
Net income from discontinued operation				144		144
Other accumulated comprehensive income						
Foreign currency translation adjustment					(472)	(472)
Hedge accounting adjustment					(112)	(112)
<b>Total Comprehensive Income</b>						<b>6,008</b>
Cash dividends (\$0.28 per share)				(1,249)		(1,249)
Purchase of Company stock	(24)	(2)	(62)	(1,150)		(1,214)
Stock options exercised and other	7		240			240
<b>Balance – January 31, 2002</b>	4,453	445	1,838	34,177	(1,268)	35,192
Comprehensive Income						
Net income from continuing operations				7,818		7,818
Net income from discontinued operation				137		137
Other accumulated comprehensive income						
Foreign currency translation adjustment					1,113	1,113
Hedge accounting adjustment					(148)	(148)
Minimum pension liability adjustment					(206)	(206)
<b>Total Comprehensive Income</b>						<b>8,714</b>
Cash dividends (\$0.30 per share)				(1,328)		(1,328)
Purchase of Company stock	(63)	(5)	(150)	(3,228)		(3,383)
Stock options exercised and other	5		266			266
<b>Balance – January 31, 2003</b>	4,395	440	1,954	37,576	(509)	39,461
Comprehensive Income						
Net income from continuing operations				8,861		8,861
Net income from discontinued operation				193		193
Other accumulated comprehensive income						
Foreign currency translation adjustment					1,685	1,685
Hedge accounting adjustment					(341)	(341)
Minimum pension liability adjustment					16	16
<b>Total Comprehensive Income</b>						<b>10,414</b>
Cash dividends (\$0.36 per share)				(1,569)		(1,569)
Purchase of Company stock	(92)	(9)	(182)	(4,855)		(5,046)
Stock options exercised and other	8		363			363
<b>Balance – January 31, 2004</b>	4,311	\$ 431	\$ 2,135	\$40,206	\$ 851	\$43,623

See accompanying notes.

## Consolidated Statements of Cash Flows

(Amounts in millions)

Fiscal years ended January 31,

	2004	2003	2002
<b>Cash flows from operating activities</b>			
Income from continuing operations	\$ 8,861	\$ 7,818	\$ 6,448
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	3,852	3,364	3,228
Decrease/(increase) in accounts receivable	373	(159)	(212)
Increase in inventories	(1,973)	(2,219)	(1,125)
Increase in accounts payable	2,658	1,848	416
Increase in accrued liabilities	1,800	1,088	1,120
Deferred income taxes	177	474	140
Other	198	709	468
Net cash provided by operating activities of continuing operations	15,946	12,923	10,483
Net cash provided by operating activities of discontinued operation	50	82	36
Net cash provided by operating activities	15,996	13,005	10,519
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment	(10,308)	(9,245)	(8,285)
Investment in international operations	(38)	(749)	—
Proceeds from the disposal of fixed assets	481	311	248
Proceeds from the sale of McLane	1,500	—	—
Proceeds from termination or sale of net investment hedges	—	—	1,134
Other investing activities	78	(73)	(231)
Net cash used in investing activities of continuing operations	(8,287)	(9,756)	(7,134)
Net cash used in investing activities of discontinued operation	(25)	(83)	(89)
Net cash used in investing activities	(8,312)	(9,839)	(7,223)
<b>Cash flows from financing activities</b>			
Increase/(decrease) in commercial paper	688	1,836	(1,533)
Proceeds from issuance of long-term debt	4,099	2,044	4,591
Purchase of Company stock	(5,046)	(3,383)	(1,214)
Dividends paid	(1,569)	(1,328)	(1,249)
Payment of long-term debt	(3,541)	(1,261)	(3,519)
Payment of capital lease obligations	(305)	(216)	(167)
Other financing activities	111	(62)	113
Net cash used in financing activities	(5,563)	(2,370)	(2,978)
Effect of exchange rate changes on cash	320	(199)	(211)
Net increase in cash and cash equivalents	2,441	597	107
Cash and cash equivalents at beginning of year*	2,758	2,161	2,054
Cash and cash equivalents at end of year**	\$ 5,199	\$ 2,758	\$ 2,161
<b>Supplemental disclosure of cash flow information</b>			
Income tax paid	\$ 4,358	\$ 4,539	\$ 2,613
Interest paid	1,024	1,085	1,332
Capital lease obligations incurred	252	381	225

\* Includes cash and cash equivalents of discontinued operation of \$22, \$23 and \$77 million for 2004, 2003 and 2002, respectively.

\*\* Includes cash and cash equivalents of discontinued operation of \$22 and \$23 million for 2003 and 2002, respectively.

See accompanying notes.

## 1 Summary of Significant Accounting Policies

### *Consolidation*

The consolidated financial statements include the accounts of Wal-Mart Stores, Inc. (“Wal-Mart”) and its subsidiaries. Significant intercompany transactions have been eliminated in consolidation. Investments in which the Company has a 20 percent to 50 percent voting interest and which Management does not have management control are accounted for using the equity method.

### *Cash and Cash Equivalents*

The Company considers investments with a maturity of three months or less when purchased to be cash equivalents. The majority of payments due from banks for third-party credit card, debit card and electronic benefit transactions (“EBT”) process within 24-48 hours, except for transactions occurring on a Friday, which are generally processed the following Monday. All credit card, debit card and EBT transactions that process in less than seven days are classified as cash and cash equivalents. Amounts due from banks for these transactions classified as cash totaled \$866 million and \$367 million at January 31, 2004 and 2003, respectively.

### *Receivables*

Accounts receivable consist primarily of receivables from insurance companies generated by our pharmacy sales, receivables from real estate transactions and receivables from suppliers for marketing or incentive programs. Additionally, amounts due from banks for customer credit card, debit card and EBT transactions that take in excess of seven days to process are classified as accounts receivable.

### *Inventories*

The Company values inventories at the lower of cost or market as determined primarily by the retail method of accounting, using the last-in, first-out (“LIFO”) method for substantially all domestic merchandise inventories, except SAM’S CLUB merchandise, which is based on average cost using the LIFO method. Inventories of foreign operations are primarily valued by the retail method of accounting, using the first-in, first-out (“FIFO”) method. Our inventories at FIFO did not exceed inventories at LIFO by a significant amount.

### *Financial Instruments*

The Company uses derivative financial instruments for purposes other than trading to manage its exposure to interest and foreign exchange rates, as well as to maintain an appropriate mix of fixed- and floating-rate debt. Contract terms of a hedge instrument closely mirror those of the hedged item, providing a high degree of risk reduction and correlation. Contracts that are effective at meeting the risk reduction and correlation criteria are recorded using hedge accounting. If a derivative instrument is a hedge, depending on the nature of the hedge, changes in the fair value of the instrument will either be offset against the change in fair value of the hedged assets, liabilities or firm commitments through earnings or recognized in other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of an instrument’s change in fair value will be immediately recognized in earnings. Instruments that do not meet the criteria for hedge accounting, or contracts for which the Company has not elected hedge accounting are marked to fair value with unrealized gains or losses reported in earnings.

### *Capitalized Interest*

Interest costs capitalized on construction projects were \$144 million, \$124 million, and \$130 million in 2004, 2003 and 2002, respectively.

### *Long-lived Assets*

Management reviews long-lived assets for indicators of impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The evaluation is done at the lowest level of cash flows, which is typically at the individual store level. Cash flows expected to be generated by the related assets are estimated over the asset’s useful life based on updated projections. If the evaluation indicates that the carrying amount of the asset may not be recoverable, the potential impairment is measured based on a projected discounted cash flow method using a discount rate that is considered to be commensurate with the risk inherent in the Company’s current business model.

### *Goodwill and Other Acquired Intangible Assets*

Under the provisions of Financial Accounting Standards Board Statement No. 142, “Goodwill and Other Intangible Assets” (“FAS 142”), which was adopted in fiscal 2003, goodwill is no longer amortized. Goodwill is evaluated for impairment annually or whenever events or changes in circumstances indicate that the value of certain goodwill may be impaired. Other acquired intangible assets are amortized on a straight-line basis over the periods that expected economic benefits will be provided. These evaluations are based on discounted cash flows and incorporate the impact of existing Company businesses. The analyses require significant Management judgment to evaluate the capacity of an acquired business to perform within projections. Historically, the Company has generated sufficient returns to recover the cost of the goodwill and other intangible assets.

Goodwill is recorded on the balance sheet in the operating segments as follows (in millions):

	January 31, 2004	January 31, 2003
International	\$ 9,577	\$ 8,985
SAM'S CLUB	305	305
Other	—	99
<b>Total Goodwill</b>	<b>\$ 9,882</b>	<b>\$ 9,389</b>

Changes in the International segment's goodwill are the result of foreign currency exchange rate fluctuations. Changes in other goodwill resulted from the sale of McLane.

The following table adjusts certain information for fiscal 2002 as if the non-amortization provisions of FAS 142 related to our goodwill had been in place at that time and compares that adjusted information to the comparable information for fiscal 2004 and 2003.

	Net Income (in Millions)			Basic Earnings Per Share			Diluted Earnings Per Share		
	2004	2003	2002	2004	2003	2002	2004	2003	2002
As reported	\$9,054	\$7,955	\$6,592	\$2.08	\$1.80	\$1.48	\$2.07	\$1.79	\$1.47
Add back: Goodwill amortization (net of \$11 million in taxes)	—	—	235	—	—	0.05	—	—	0.05
<b>As adjusted</b>	<b>\$9,054</b>	<b>\$7,955</b>	<b>\$6,827</b>	<b>\$2.08</b>	<b>\$1.80</b>	<b>\$1.53</b>	<b>\$2.07</b>	<b>\$1.79</b>	<b>\$1.52</b>

#### Foreign Currency Translation

The assets and liabilities of all foreign subsidiaries are translated at current exchange rates. Related translation adjustments are recorded as a component of other accumulated comprehensive income.

#### Revenue Recognition

The Company recognizes sales revenue at the time it sells merchandise to the Customer, except for layaway transactions. The Company recognizes layaway transactions when the Customer satisfies all payment obligations and takes possession of the merchandise. Customer purchases of Wal-Mart/SAM'S CLUB shopping cards are not recognized until the card is redeemed and the Customer purchases merchandise by using the shopping card.

#### SAM'S CLUB Membership Revenue Recognition

The Company recognizes SAM'S CLUB membership fee revenues both domestically and internationally over the term of the membership, which is 12 months. The following table provides unearned revenues, membership fees received from members and the amount of revenues recognized in earnings for each of the fiscal years 2004, 2003 and 2002:

	2004	2003	2002
(Amounts in millions)			
Deferred membership revenue, beginning of year	\$ 437	\$ 387	\$ 369
Membership fees received	840	834	748
Membership revenue recognized	(828)	(784)	(730)
<b>Deferred membership revenue, end of year</b>	<b>\$ 449</b>	<b>\$ 437</b>	<b>\$ 387</b>

SAM'S CLUB membership revenue is included in the other income, net in revenues section of the Consolidated Statements of Income.

The Company's deferred membership revenue is included in accrued liabilities in the Consolidated Balance Sheets. The Company's analysis of historical membership fee refunds indicates that such refunds have been insignificant. Accordingly, no reserve exists for membership fee refunds at January 31, 2004 and 2003.

#### Cost of Sales

Cost of sales includes actual product cost, change in inventory, the cost of transportation to the Company's warehouses from suppliers, the cost of transportation from the Company's warehouses to the stores and Clubs and the cost of warehousing for our SAM'S CLUB segment.

#### Payments from Suppliers

Wal-Mart receives money from suppliers for various programs, primarily volume incentives; warehouse allowances; and reimbursements for specific programs such as markdowns, margin protection and advertising. Substantially all allowances are accounted for as a reduction of

purchases and recognized in our Consolidated Statements of Income when related inventory is sold.

### *Operating, Selling, General and Administrative Expenses*

Operating, selling, general and administrative expenses include all operating costs of the Company that are not related to the transportation of products from the supplier to the warehouse or from the warehouse to the store. Additionally, the cost of warehousing and occupancy for our Wal-Mart Stores segment distribution facilities are included in operating, selling, general and administrative expenses. Because we do not include the cost of our Wal-Mart Stores segment distribution facilities in cost of sales, our gross profit and gross margin may not be comparable to those of other retailers that may include all costs related to their distribution facilities in costs of sales and in the calculation of gross profit and gross margin.

### *Advertising Costs*

Advertising costs are expensed as incurred and were \$966 million, \$676 million and \$618 million in fiscal 2004, 2003 and 2002, respectively. Advertising costs consist primarily of print and television advertisements. The increase in advertising costs in 2004 compared with 2003 and 2002 is primarily attributable to the adoption of Emerging Issues Task Force Consensus No. 02-16, which is discussed below in "New Accounting Pronouncements."

### *Pre-opening Costs*

The costs of start-up activities, including organization costs and new store openings, are expensed as incurred.

### *Insurance/Self-Insurance*

The Company uses a combination of insurance, self-insured retention and self-insurance for a number of risks, including workers' compensation, general liability, vehicle liability and the Company-funded portion of employee-related health care benefits. Liabilities associated with these risks are estimated in part by considering historical claims experience, demographic factors, severity factors and other actuarial assumptions.

### *Depreciation and Amortization*

Depreciation and amortization for financial statement purposes are provided on the straight-line method over the estimated useful lives of the various assets. Depreciation expense, including amortization of property under capital leases for the years 2004, 2003 and 2002 was \$3.5 billion, \$3.0 billion and \$2.7 billion, respectively. For income tax purposes, accelerated methods are used with recognition of deferred income taxes for the resulting temporary differences. Estimated useful lives for financial statement purposes are as follows:

Buildings and improvements	5 – 50 years
Fixtures and equipment	5 – 12 years
Transportation equipment	2 – 5 years
Internally developed software	3 years

### *Net Income Per Share*

Basic net income per share is based on the weighted-average outstanding common shares. Diluted net income per share is based on the weighted-average outstanding shares adjusted for the dilutive effect of stock options and restricted stock grants. The diluted effect of stock options was 10 million, 16 million and 16 million shares in fiscal 2004, 2003 and 2002, respectively. The Company had approximately 11 million, 10 million and 3.5 million option shares outstanding at January 31, 2004, 2003 and 2002, respectively, which were not included in the dilutive net income per share calculation because the underlying option price exceeded the weighted-average market price for the period; thus the effect would have increased net income per share.

### *Estimates and Assumptions*

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires Management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities. They also affect the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

### *New Accounting Pronouncements*

The Company has various stock option compensation plans for Associates. Beginning on February 1, 2003, the Company adopted the recognition and measurement provisions of FASB Statement No. 123, "Accounting and Disclosure of Stock-Based Compensation" ("FAS 123"). Under FAS 123, compensation expense is recognized based on the fair value of stock options granted. As a result of the accounting change, all prior periods presented have been restated to reflect the compensation cost that would have been recognized had the recognition provisions of FAS 123 been applied to all awards granted to employees. Prior to the adoption of FAS 123, the Company followed Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25"), and related interpretations to account for its employee stock options. Because the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of the grant in most cases, no significant compensation expense related to options

was recognized under APB 25. The adoption of the fair value method in 2003 resulted in a reduction of retained earnings of \$348 million, an increase in paid-in capital of \$472 million and an increase in deferred tax assets of \$124 million. Following the provisions of FAS 123, fiscal 2004, 2003 and 2002 include a reduction of net income of \$102 million, \$84 million and \$79 million, respectively, or \$0.02 in each fiscal year.

The fair value of stock options was estimated at the date of grant using the Black-Scholes option valuation model which was developed for use in estimating the fair value of traded options, which have no vesting restrictions and are fully transferable. Option valuation methods require the input of highly subjective assumptions, including the expected stock price volatility. The fair value of these options was estimated at the date of the grant based on the following assumptions:

	2004	2003	2002
Dividend yield	1.0%	0.7%	0.7%
Volatility	32.3%	32.1%	36.5%
Risk-free interest rate	2.8%	3.2%	4.6%
Expected life in years	4.5	4.6	5.2
Weighted average fair value of options at grant date	\$15.83	\$15.67	\$20.27

On February 1, 2003, the Company adopted the standards of FASB Statement No. 143, "Asset Retirement Obligations" ("FAS 143"). FAS 143 requires the Company to recognize the fair value of a liability associated with the cost the Company would be obligated to incur in order to retire an asset at some point in the future. The adoption of this standard did not have a material impact on the Company's results of operations.

In July 2002, the FASB issued FAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("FAS 146"). FAS 146 addresses financial accounting and reporting for costs associated with exit or disposal activities and replaces the FASB's Emerging Issues Task Force ("EITF") 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." FAS 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred. FAS 146 also establishes that fair value is the objective for initial measurement of the liability. The statement is effective for exit or disposal activities initiated after December 31, 2002. The adoption of FAS 146 in fiscal 2004 did not have a material impact on the Company's financial statements.

In April 2003, the FASB issued FAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" ("FAS 149"). This statement amends and clarifies accounting for derivative instruments and is effective for contracts entered into or modified after June 30, 2003. The adoption of FAS 149 did not have a material impact on our financial statements.

In May 2003, the FASB issued FAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity" ("FAS 150"). FAS 150 clarifies the classification and measurement of certain financial instruments with characteristics of both liabilities and equity, and is effective for financial instruments entered into or modified after May 31, 2003, or otherwise for the first interim period beginning after June 15, 2003. The adoption of FAS 150 did not have a material impact on our financial statements.

In November 2002, the EITF reached a consensus on EITF 02-16, "Accounting by a Reseller for Cash Consideration Received from a Vendor" ("EITF 02-16"), which addresses the accounting for "Cash Consideration" (which includes slotting fees, cooperative advertising payments, etc.) and "Rebates or Refunds" from a vendor that are payable only if the merchant completes a specified cumulative level of purchases or remains a customer of the vendor for a specified period of time. EITF 02-16 established an overall presumption that all consideration from vendors should be accounted for as a reduction of item cost and be recognized at the time the related inventory is sold. EITF 02-16 provides that the overall presumption can be overcome in two ways. First, consideration representing a payment for assets or services delivered to a vendor should be classified as revenue or other income. Second, consideration representing a reimbursement of a specific, incremental, identifiable cost incurred in selling the vendor's product should be recorded as a reduction of that expense. Wal-Mart had historically recorded certain consideration from vendors primarily as a reduction of advertising expense. We adopted EITF 02-16 on February 1, 2003, and now account for this consideration as a reduction of purchases. The adoption of EITF 02-16 resulted in an after-tax impact of approximately \$140 million, or \$0.03 per share.

In November 2003, the FASB ratified the EITF's consensus on Issue 03-10, "Application of Issue 02-16 by Resellers to Sales Incentives Offered to Consumers by Manufacturers" ("EITF 03-10"), which amends EITF 02-16. This consensus requires that if certain criteria are met, consideration received by a reseller in the form of reimbursement from a vendor for honoring the vendor's sales incentives offered directly to consumers (i.e., manufacturer's coupons) should not be recorded as a reduction of the cost of the reseller's purchases from the vendor. The adoption of EITF 03-10, which is required for us on February 1, 2004, did not have a material impact on our financial statements.



In January 2003, the FASB issued FASB Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46"), as amended by FIN 46-R. This interpretation addresses the consolidation of business enterprises ("variable interest entities") to which the usual condition (ownership of a majority voting interest) of consolidation does not apply. This interpretation focuses on financial interests that indicate control. It concludes that in the absence of clear control through voting interests or sufficient equity, a company's exposure ("variable interest") to the economic risks and potential rewards from the variable interest entity's assets and activities are the best evidence of control. Variable interests are rights and obligations that convey economic gains or losses from changes in the values of the variable interest entity's assets and liabilities. Variable interests may arise from financial instruments, service contracts, nonvoting ownership interests and other arrangements. If an enterprise holds a majority of the variable interests of an entity, it would be considered the primary beneficiary. The primary beneficiary would be required to consolidate the assets, liabilities and the results of operations of the variable interest entity in its financial statements. FIN 46-R applies immediately to variable interest entities that were created or for which control was obtained after January 31, 2003, at the end of the first interim period ended after December 15, 2003, for variable interest entities that are special purpose entities and at the end of the first interim period ending after March 15, 2004, for all other entities established on or before January 31, 2003.

The Company has adopted the provisions of FIN 46-R for the year ending January 31, 2004, for any variable interest entities created after January 31, 2003, and for any variable interest entities that are special purpose entities with no impact on our financial statements. The Company will adopt the provisions of FIN 46-R for our financial statements for the first quarter ending April 30, 2004, for any variable interest entities created before February 1, 2003. As the net sales and total assets of entities affected by FIN 46-R represent less than 1% of the Company's net sales and total assets, we do not expect the adoption of this provision of FIN 46-R to have a material impact on our financial statements.

### Reclassifications

Certain reclassifications have been made to prior periods to conform to current presentations.

## 2 Commercial Paper and Long-term Debt

Information on short-term borrowings and interest rates is as follows (dollar amounts in millions):

	2004	2003	2002
Fiscal Years Ended January 31,			
Maximum amount outstanding at any month-end	\$4,957	\$4,226	\$4,072
Average daily short-term borrowings	1,498	1,549	2,606
Weighted average interest rate	1.1%	1.7%	3.7%

At January 31, 2004 and 2003, short-term borrowings consisted of \$3.3 billion and \$1.1 billion, respectively, of commercial paper. At January 31, 2004, the Company had committed lines of \$5.1 billion with 73 firms and banks and informal lines of credit with various banks totaling an additional \$145 million, which were used to support commercial paper.

Long-term debt at January 31, consists of (in millions):

Interest Rate	Due by Fiscal Year	2004	2003
6.875%	Notes due 2010	\$ 3,500	\$ 3,500
4.375% – 7.250%	Notes due 2014	2,854	1,265
Various	Notes due 2006	2,597	2,597
4.375% – 8.000%	Notes due 2007	2,130	2,084
5.750% – 7.550%	Notes due 2031	1,912	1,823
6.550% – 7.500%	Notes due 2005	1,750	1,750
4.375%	Notes due 2008	1,500	1,500
3.375%	Notes due 2009	1,000	—
6.562% – 8.246%	Obligations from sale/leaseback transactions due 2013-2015	527	580
5.850%	Notes due 2019 with put option	500	500
6.200%	Notes due 2011 with put option	500	500
8.500%	Notes due 2025	250	250
6.750%	Notes due 2024	250	250
3.250% – 6.500%	Notes due 2004	—	3,382
	Other, including adjustments to debt hedged by derivatives	736	1,152
		<b>\$20,006</b>	<b>\$21,133</b>

The Company has two separate issuances of \$500 million debt with embedded put options. For the first issuance, beginning June 2001, and each year thereafter, the holders of \$500 million of the debt may require the Company to repurchase the debt at face value, in addition to accrued and unpaid interest. The holders of the other \$500 million issuance may put the debt back to the Company at par plus accrued interest at any time. Both of these issuances have been classified as a current liability in the Consolidated Balance Sheets.

Under the Company's most significant borrowing arrangements, the Company is not required to observe financial covenants. However, under certain lines of credit totaling \$4 billion which were undrawn as of January 31, 2004, the Company has agreed to observe certain covenants, the most restrictive of which relates to minimum net worth levels and amounts of additional secured debt and long-term leases. The Company was not in violation of these covenants at January 31, 2004.

Long-term debt is unsecured except for \$62 million, which is collateralized by property with an aggregate carrying value of approximately \$172 million. Annual maturities of long-term debt during the next five years and thereafter are (in millions):

<b>Fiscal Year Ended January 31,</b>	<b>Annual Maturity</b>
2005	\$ 2,904
2006	2,813
2007	2,293
2008	1,572
2009	1,037
Thereafter	9,387
<b>Total</b>	<b>\$ 20,006</b>

The Company has entered into sale/leaseback transactions involving buildings while retaining title to the underlying land. These transactions were accounted for as financings and are included in long-term debt and the annual maturities schedule above. The resulting obligations are amortized over the lease terms. Future minimum lease payments for each of the five succeeding years and thereafter as of January 31, 2004, are (in millions):

<b>Fiscal Year Ended January 31,</b>	<b>Minimum Payments</b>
2005	\$ 75
2006	60
2007	58
2008	55
2009	42
Thereafter	188
<b>Total</b>	<b>\$ 478</b>

At January 31, 2004 and 2003, the Company had trade letters of credit outstanding totaling \$2.0 billion and \$1.9 billion, respectively. These letters of credit were issued primarily for the purchase of inventory. At January 31, 2004 and 2003, the Company had standby letters of credit outstanding totaling \$1.4 billion and \$898 million, respectively.

As of January 31, 2004, we had \$6 billion of debt securities remaining under a shelf registration statement previously filed with the United States Securities and Exchange Commission which are eligible for issuance, subject to market conditions in the public markets. Subsequent to fiscal 2004 year-end, in February and March 2004, we sold notes totaling \$1.25 billion and \$750 million, respectively, under that shelf registration statement. These notes bear interest of 4.125% and mature in February 2011. The proceeds from the sale of these notes were used for general corporate purposes. After consideration of these debt issuances, we are permitted to sell up to \$4 billion of public debt under our shelf registration statement.

### 3 Financial Instruments

The Company uses derivative financial instruments for hedging and non-trading purposes to manage its exposure to interest and foreign exchange rates. Use of derivative financial instruments in hedging programs subjects the Company to certain risks, such as market and credit risks. Market risk represents the possibility that the value of the derivative instrument will change. In a hedging relationship, the change in the value of the derivative is offset to a great extent by the change in the value of the underlying hedged item. Credit risk related to derivatives represents the possibility that the counterparty will not fulfill the terms of the contract. Credit risk is monitored through established approval procedures, including setting concentration limits by counterparty, reviewing credit ratings and requiring collateral (generally cash) when appropriate. The majority of the Company's transactions are with counterparties rated "AA-" or better by nationally recognized credit rating agencies.

### Fair Value Instruments

The Company enters into interest rate swaps to minimize the risks and costs associated with its financing activities. Under the swap agreements, the Company pays variable-rate interest and receives fixed-rate interest payments periodically over the life of the instruments. The notional amounts are used to measure interest to be paid or received and do not represent the exposure due to credit loss. All of the Company's interest rate swaps that receive fixed interest rate payments and pay variable interest rate payments are designated as fair value hedges. As the specific terms and notional amounts of the derivative instruments exactly match those of the instruments being hedged, we have applied the "short-cut" method of accounting provided under FAS 133 and FAS 138. As such, the derivative instruments were assumed to be perfect hedges and all changes in fair value of the hedges were recorded on the balance sheet with no net impact on the income statement.

### Net Investment Instruments

At January 31, 2004, the Company is a party to cross-currency interest rate swaps that hedge its net investment in the United Kingdom. The agreements are contracts to exchange fixed-rate payments in one currency for fixed-rate payments in another currency. The Company also holds approximately Great Britain pound (GBP) 1 billion of debt that is designated as a hedge of the net investment in the United Kingdom. All changes in the fair value of these instruments are recorded to other comprehensive income, offsetting the foreign currency translation adjustment that is also recorded in other comprehensive income.

### Cash Flow Instruments

The Company entered into cross-currency interest rate swaps to hedge the foreign currency risk of certain foreign-denominated debt. These swaps are designated as cash flow hedges of foreign currency exchange risk. The agreements are contracts to exchange fixed-rate payments in one currency for fixed-rate payments in another currency. Changes in the foreign currency spot exchange rate result in reclassification of amounts from other accumulated comprehensive income to earnings to offset transaction gains or losses on foreign-denominated debt. These instruments mature in fiscal 2007 and 2009.

The Company entered into an interest rate swap to lock in the interest rate on floating debt. Under the swap agreement, the Company pays a fixed interest rate and receives variable interest payments periodically over the life of the instrument. The notional, or contractual amount is used to measure interest to be paid or received and does not represent the exposure due to credit loss. As the specific terms and notional amounts of the derivative instruments exactly match those of the instruments being hedged, we have applied the "short-cut" method of accounting provided under FAS 133 and FAS 138. As such, the derivative instrument was assumed to be a perfect hedge and all changes in fair value of the hedges were recorded on the balance sheet in other comprehensive income.

The Company expects that the amount of gain or loss existing in other accumulated comprehensive income to be reclassified into earnings within the next 12 months will not be significant.

### Fair Value of Financial Instruments

Instrument Fiscal Year Ended January 31, (in millions)	Notional Amount		Fair Value	
	2004	2003	2004	2003
<b>Derivative financial instruments designated for hedging:</b>				
Receive fixed rate, pay floating rate interest rate swaps designated as fair value hedges	\$ 8,292	\$ 8,292	\$ 697	\$ 803
Receive fixed rate, pay fixed rate cross-currency interest rate swaps designated as net investment hedges (Cross-currency notional amount: GBP 795 at 1/31/2004 and 2003)	1,250	1,250	29	126
Receive fixed rate, pay fixed rate cross-currency interest rate swap designated as cash flow hedge (Cross-currency notional amount: CAD 503 at 1/31/2004 and 2003)	325	325	(54)	8
Receive fixed rate, pay fixed rate cross-currency interest rate swap designated as cash flow hedge (Cross-currency notional amount: JPY 52,056 at 1/31/2004 and 2003)	432	432	(46)	2
Receive floating rate, pay fixed rate interest rate swap designated as a cash flow hedge	1,500	—	(16)	—
	<b>\$11,799</b>	<b>\$10,299</b>	<b>\$ 610</b>	<b>\$ 939</b>
<b>Non-derivative financial instruments:</b>				
Long-term debt	<b>\$20,006</b>	<b>\$21,133</b>	<b>\$21,349</b>	<b>\$20,794</b>

Hedging instruments with a favorable fair value are classified as other assets and deferred charges in the Consolidated Balance Sheets. Those instruments with an unfavorable fair value are classified as accrued liabilities.

*Cash and cash equivalents:* The carrying amount approximates fair value due to the short maturity of these instruments.

*Long-term debt:* Fair value is based on the Company's current incremental borrowing rate for similar types of borrowing arrangements.

*Interest rate instruments and net investment instruments:* The fair values are estimated amounts the Company would receive or pay to terminate the agreements as of the reporting dates.

#### 4 Other Accumulated Comprehensive Income

Comprehensive income is net income plus certain other items that are recorded directly to Shareholders' equity. The following table gives further detail regarding the changes in the composition of comprehensive income during fiscal 2004, 2003 and 2002 (in millions):

	Foreign Currency Translation	Derivative Instruments	Minimum Pension Liability	Total
Balance at January 31, 2001	(\$ 1,766)	\$ 1,082	\$ —	(\$ 684)
Foreign currency translation adjustment	(472)	—	—	(472)
Change in fair value of hedge instruments	—	322	—	322
Reclassification of tax payable on terminated hedges	—	(426)	—	(426)
Reclassification to earnings	—	(8)	—	(8)
Balance at January 31, 2002	(2,238)	970	—	(1,268)
Foreign currency translation adjustment	1,113	—	—	1,113
Change in fair value of hedge instruments	—	(164)	—	(164)
Reclassification to earnings	—	16	—	16
Subsidiary minimum pension liability	—	—	(206)	(206)
Balance at January 31, 2003	(1,125)	822	(206)	(509)
Foreign currency translation adjustment	1,685	—	—	1,685
Change in fair value of hedge instruments	—	(444)	—	(444)
Reclassification to earnings	—	103	—	103
Subsidiary minimum pension liability	—	—	16	16
Balance at January 31, 2004	\$ 560	\$ 481	(\$ 190)	\$ 851

#### 5 Income Taxes

The income tax provision consists of the following (in millions):

Fiscal years ended January 31,	2004	2003	2002
<b>Current</b>			
Federal	\$4,039	\$3,299	\$2,941
State and local	333	229	303
International	569	355	381
<b>Total current tax provision</b>	<b>4,941</b>	<b>3,883</b>	<b>3,625</b>
<b>Deferred</b>			
Federal	31	305	188
State and local	2	26	14
International	144	143	(62)
<b>Total deferred tax provision</b>	<b>177</b>	<b>474</b>	<b>140</b>
<b>Total provision for income taxes</b>	<b>\$5,118</b>	<b>\$4,357</b>	<b>\$3,765</b>

Earnings before income taxes are as follows (in millions):

Fiscal years ended January 31,	2004	2003	2002
Domestic	\$12,075	\$10,490	\$ 9,168
International	2,118	1,878	1,228
<b>Total earnings before income taxes and minority interest</b>	<b>\$14,193</b>	<b>\$12,368</b>	<b>\$10,396</b>

Items that give rise to significant portions of the deferred tax accounts at January 31 are as follows (in millions):

	2004	2003
<b>Deferred tax liabilities</b>		
Property, plant and equipment	\$1,581	\$1,357
Inventory	419	527
Capital leases	92	34
International, principally asset basis difference	611	581
Acquired asset basis difference	57	51
Other	146	186
<b>Total deferred tax liabilities</b>	<b>\$2,906</b>	<b>\$2,736</b>
<b>Deferred tax assets</b>		
Amounts accrued for financial reporting purposes not yet deductible for tax purposes	\$1,280	\$1,114
International loss carryforwards	638	524
Deferred revenue	140	136
Other	298	367
<b>Total deferred tax assets</b>	<b>2,356</b>	<b>2,141</b>
Valuation allowance	(215)	(16)
<b>Total deferred tax assets, net of valuation allowance</b>	<b>\$2,141</b>	<b>\$2,125</b>
<b>Net deferred tax liabilities</b>	<b>\$ 765</b>	<b>\$ 611</b>

Fiscal years ended January 31,	2004	2003
Statutory tax rate	35.00%	35.00%
State income taxes, net of federal income tax benefit	1.53%	1.36%
International	(0.20%)	(1.29%)
Other	(0.27%)	0.16%
	<b>36.06%</b>	<b>35.23%</b>

Federal and state income taxes have not been provided on accumulated but undistributed earnings of foreign subsidiaries aggregating approximately \$4.0 billion at January 31, 2004, as such earnings have been permanently reinvested in the business. The determination of the amount of the unrecognized deferred tax liability related to the undistributed earnings is not practicable.

A valuation allowance has been established to reduce certain foreign subsidiaries' deferred tax assets relating primarily to net operating loss carryforwards. During the fourth quarter of fiscal 2004, as the result of new tax legislation in Germany, we re-evaluated the recoverability of the deferred tax asset related to our German operations. Based on the results of our review, we recorded a valuation allowance resulting in a charge of \$150 million.

## 6 Acquisitions and Disposal

### Acquisitions

During May 2002, the Company acquired its initial 6.1% stake in The Seiyu, Ltd. (“Seiyu”), a Japanese retail chain, for approximately \$51 million. In December 2002, the Company exercised in full the first in the series of warrants granted allowing us to acquire 192.8 million new shares in Seiyu for approximately \$432 million. After this exercise, our ownership percentage in Seiyu increased to approximately 35%. In August 2003, the Company purchased an additional 20.2 million shares from Seiyu for approximately \$38 million, bringing our ownership percentage in Seiyu to approximately 37.8%. Under the terms of the agreement, Wal-Mart, through a series of warrants exercisable in specified series through 2007, can contribute approximately 235 billion yen, or \$2.2 billion at January 31, 2004, using an exchange rate of 105.7 yen per dollar, for additional shares of stock in Seiyu. If all the warrants are exercised, we will own approximately 69.4% of the stock of Seiyu by the end of December 2007.

Also, in December 2002, the Company completed its purchase of Supermercados Amigo, Inc. (“Amigo”), a supermarket chain located in Puerto Rico with 37 supermarkets, six of which were subsequently sold. The purchase price of approximately \$242 million was financed by commercial paper. The transaction resulted in approximately \$197 million of goodwill. The results of operations, which were not material, are included in the consolidated Company results since the date of acquisition.

Subsequent to fiscal year-end 2004, in February 2004, the Company completed its purchase of Bompreco S.A. Supermercados do Nordeste (“Bompreco”), a supermarket chain in northern Brazil with 118 hypermarkets, supermarkets and mini-markets. The purchase price was approximately \$300 million. The results of operations for Bompreco will be included in our consolidated financial statements beginning in fiscal 2005.

### Disposal

On May 23, 2003, the Company completed the sale of McLane. The Company received \$1.5 billion in cash for the sale. In accordance with the provisions related to discontinued operations specified within FASB Statement No. 144, “Accounting for the Impairment or Disposal of Long-Lived Assets” (“FAS 144”), the accompanying consolidated financial statements and notes reflect the gain on the sale and the operations of McLane as a discontinued operation.

Following is summarized financial information for McLane (in millions):

	2004	2003	2002
Net sales	\$4,328	\$14,907	\$13,788
Income from discontinued operation	\$ 67	\$ 221	\$ 232
Income tax expense	25	84	88
Net operating income from discontinued operation	\$ 42	\$ 137	\$ 144
Gain on sale of McLane, net of \$147 income tax expense	151	—	—
Income from discontinued operation, net of tax	\$ 193	\$ 137	\$ 144

The effective tax rate on the gain on the sale of McLane was 49% as a result of the non-deductibility of \$99 million of goodwill related to the original McLane acquisition.

## 7 Stock Option Plans

On February 1, 2003, the Company adopted the expense recognition provisions of FASB Statement No. 123, “Accounting and Disclosure of Stock-Based Compensation” (“FAS 123”). Under FAS 123, compensation expense is recognized based on the fair value of stock options granted. As a result, all prior periods presented have been restated to reflect the compensation cost that would have been recognized had the recognition provisions of FAS 123 been applied to all awards granted to employees since February 1, 1995. Following the provisions of FAS 123, the 12 months ended January 31, 2004, 2003 and 2002 include \$102 million, \$84 million and \$79 million, respectively, of after-tax stock option expense, which is approximately \$0.02 per share in each fiscal year.

The options granted under the stock option plans generally expire 10 years from the date of grant. Options granted prior to November 17, 1995, vest over nine years. Generally, options granted on or after November 17, 1995 and before fiscal 2001 vest over seven years. Options granted after fiscal 2001 vest over five years.

The Company issues restricted (non-vested) stock to certain of our Associates. Most restricted stock grants vest 25 percent after three years, an additional 25 percent after five years and the final 50 percent at age 65. Three million restricted shares were outstanding at January 31, 2004, with a weighted-average grant date value of \$40.99.

The following table summarizes information about stock options outstanding as of January 31, 2004:

Range of Exercise Prices	Number of Outstanding Options	Weighted—Average Remaining Life in Years	Weighted-Average Exercise Price of Outstanding Options	Number of Options Exercisable	Weighted-Average Exercise Price of Exercisable Options
\$ 4.24 to 7.25	48,000	1.3	\$ 6.16	48,000	\$ 6.16
10.81 to 14.88	7,185,000	2.2	11.71	6,973,000	11.71
17.53 to 23.33	4,826,000	4.0	19.33	3,712,000	19.35
25.00 to 38.72	3,266,000	6.8	35.17	442,000	26.83
39.86 to 45.69	7,475,000	6.4	40.92	2,470,000	40.14
46.00 to 54.98	39,785,000	8.4	49.82	7,089,000	49.20
55.25 to 60.90	11,162,000	8.2	56.44	3,029,000	56.26
<b>\$ 4.24 to 60.90</b>	<b>73,747,000</b>	<b>7.2</b>	<b>\$ 43.58</b>	<b>23,763,000</b>	<b>\$ 32.99</b>

Further information concerning the options is as follows:

	Shares	Option Price Per Share	Weighted-Average Per Share	Total
January 31, 2001 (15,944,000 shares exercisable)	52,051,000	\$ 5.33 – 63.44	\$ 27.05	\$1,407,993,000
Options granted	12,821,000	4.24 – 56.80	46.46	595,639,000
Options canceled	(1,969,000)	11.13 – 54.56	34.04	(67,030,000)
Options exercised	(9,433,000)	4.24 – 47.56	22.48	(212,065,000)
January 31, 2002 (16,823,000 shares exercisable)	53,470,000	\$ 4.24 – 63.44	\$ 32.25	\$1,724,537,000
Options granted	15,267,000	48.41 – 57.80	54.32	829,244,000
Options canceled	(3,037,000)	4.24 – 63.44	42.07	(127,752,000)
Options exercised	(6,595,000)	4.24 – 55.94	23.90	(157,588,000)
January 31, 2003 (20,053,000 shares exercisable)	59,105,000	\$ 4.24 – 60.90	\$ 38.38	\$2,268,441,000
<b>Options granted</b>	<b>26,136,000</b>	<b>47.02 – 59.92</b>	<b>49.65</b>	<b>1,297,604,000</b>
<b>Options canceled</b>	<b>(4,006,000)</b>	<b>4.24 – 60.90</b>	<b>45.09</b>	<b>(180,666,000)</b>
<b>Options exercised</b>	<b>(7,488,000)</b>	<b>4.24 – 56.80</b>	<b>22.89</b>	<b>(171,389,000)</b>
<b>January 31, 2004 (23,763,000 shares exercisable)</b>	<b>73,747,000</b>	<b>\$ 4.24 – 60.90</b>	<b>\$ 43.58</b>	<b>\$3,213,990,000</b>
Shares available for option:				
January 31, 2003	124,589,000			
<b>January 31, 2004</b>	<b>102,459,000</b>			

Income tax benefit resulting from the tax deductions triggered by employee exercise of stock options amounted to \$83 million, \$84 million and \$106 million in fiscal 2004, 2003 and 2002, respectively.



## 8 Litigation

The Company is involved in a number of legal proceedings, which include consumer, employment, tort and other litigation. The lawsuits discussed below, if decided adversely to or settled by the Company, may result in liability material to the Company's financial condition or results of operations. The Company may enter into discussions regarding settlement of these and other lawsuits, and may enter into settlement agreements, if it believes settlement is in the best interests of the Company's Shareholders. In accordance with FASB Statement No. 5, "Accounting for Contingencies," the Company has made accruals with respect to these lawsuits, where appropriate, which are reflected in the Company's consolidated financial statements.

The Company is a defendant in numerous cases containing class-action allegations in which the plaintiffs have brought claims under the Fair Labor Standards Act ("FLSA"), corresponding state statutes or other laws. The plaintiffs in these lawsuits are hourly Associates who allege, among other things, that the Company forced them to work "off the clock" and failed to provide work breaks. The complaints generally seek unspecified monetary damages, injunctive relief or both. In North Carolina, Georgia, Texas, Ohio, Louisiana, Wisconsin, West Virginia, Florida and Michigan, the trial or appellate courts have denied class certification as to all state-law claims. In Louisiana and Texas, the plaintiffs then amended their pleadings to assert collective actions under the FLSA. A statewide class was certified in Colorado, but the Order was vacated after settlement. Statewide class actions were certified in Indiana, Massachusetts and Minnesota, and the rulings have been appealed. In California, the court denied certification of off-the-clock and rest-period damages claims, but certified a class for meal period claims, as well as certain other classes for injunctive relief only. Class certification claims are yet to be addressed in a majority of the cases. In Oregon, a federal court denied statewide certification as to state contract off-the-clock claims but allowed a limited class of opt-in plaintiffs to go to trial on FLSA and state statutory claims. The damages trial was completed on February 17, 2004. The court will now determine the amount of damages, based on the jury's findings. The Company does not expect the amount of damages in Oregon to have a material impact on the Company's financial condition or results of operations.

The California Department of Labor Standards Enforcement has initiated an investigation of Wal-Mart and SAM'S CLUB for alleged failures to comply with California wage-and-hour laws. In addition, two putative class actions have been filed in California challenging the methodology of payments made under various Associate incentive and bonus plans.

The Company is currently a defendant in two putative class actions brought on behalf of assistant store managers who challenge their exempt status under the FLSA, both of which are pending in federal court in Michigan. Two similar putative class actions challenging the exempt status of Wal-Mart assistant store managers and photo-center managers under California law have been filed in Los Angeles County Superior Court. No determination has been made as to class certification in any of these cases.

The Company is a defendant in *Dukes v. Wal-Mart Stores, Inc.*, a putative class-action lawsuit commenced in June 2001 and pending in the United States District Court for the Northern District of California. The case was brought on behalf of all past and present female employees in all of the Company's retail stores and wholesale Clubs in the United States. The complaint alleges that the Company has engaged in a pattern and practice of discriminating against women in promotions, pay, training and job assignments. The complaint seeks, among other things, injunctive relief, compensatory damages including front pay and back pay, punitive damages, and attorneys' fees. A hearing on class certification was held on September 24, 2003, but the court has not yet issued a ruling. There can be no assurance as to whether a class will be certified or, if a class is certified, as to the geographic or other scope of such a class. If the Court certifies a class in this action and there is an adverse verdict on the merits, or in the event of a negotiated settlement of the action, the resulting liability could be material to the Company, as could employment-related injunctive measures, which would result in increased costs of operations on an ongoing basis.

The Company is a defendant in five putative class-action lawsuits, three of which are pending in Texas, one in New Hampshire, and one in Oklahoma. In each lawsuit, the plaintiffs seek a declaratory judgment that Wal-Mart and the other defendants who purchased Corporate-Owned Life Insurance ("COLI") policies lacked an insurable interest in the lives of the employees who were the insured under the policies, and seek to recover the proceeds of the policies under theories of unjust enrichment and constructive trust. In some of the suits, the plaintiffs assert other causes of action, and seek punitive damages. Class certification has not been decided in any of these cases. In January 2004, the parties to the first-filed Texas lawsuit signed a settlement agreement, which must be approved by the court in order to become effective. If approved by the court, the settlement will include all Texas COLI claimants who do not opt out of the settlement class. The amount to be paid by Wal-Mart under the contemplated settlement will not have a material impact on the Company's financial condition or results of operations. In the Oklahoma litigation, the court has deferred ruling on plaintiffs' request to add 11 additional states to the litigation, pending a ruling on the Company's motion for summary judgment. The New Hampshire case was settled in February 2004. The amount of the settlement will not have a material impact on the Company's financial condition or results of operations.

The Company is a defendant in *Mauldin v. Wal-Mart Stores, Inc.*, a class-action lawsuit that was filed on October 16, 2001, in the United States District Court for the Northern District of Georgia, Atlanta Division. The class was certified on August 23, 2002. On September 30, 2003, the court denied the Company's motion to reconsider that ruling. The class is composed of female Wal-Mart Associates who were participants in the Associates Health and Welfare Plan at any time from March 8, 2001, to the present and who were using prescription contraceptives. The class seeks amendment of the Plan to include coverage for prescription contraceptives, back pay for all members in the form of reimbursement of the cost of prescription contraceptives, pre-judgment interest, and attorneys' fees. The complaint alleges that the Company's Health Plan violates Title VII's prohibition against gender discrimination in that the Health Plan's Reproductive Systems provision does not provide coverage for prescription contraceptives.



The Company is a defendant in a lawsuit that was filed on August 31, 2001, in the United States District Court for the Eastern District of Kentucky. *EEOC (Janice Smith) v. Wal-Mart Stores, Inc.* is an action brought by the EEOC on behalf of Janice Smith and all other females who made application or transfer requests at the London, Kentucky, Distribution Center from 1995 to the present, and who were not hired or transferred into the warehouse positions for which they applied. The class seeks back pay for those females not selected for hire or transfer during the relevant time period. The class also seeks injunctive and prospective affirmative relief. The complaint alleges that the Company based hiring decisions on gender in violation of Title VII of the 1964 Civil Rights Act as amended. The EEOC can maintain this action as a class without certification.

The Company was previously a defendant in seven putative class actions that were pending in a Massachusetts state court, in which the plaintiffs alleged that the Company violated a state regulation requiring individual price stickers to be affixed to certain items offered for retail sale. The parties entered into a settlement agreement in the fall of 2003, which was approved by the court on December 15, 2003. The settlement will not have a material impact on the Company's financial condition or results of operations.

## 9 Commitments

The Company and certain of its subsidiaries have long-term leases for stores and equipment. Rentals (including, for certain leases, amounts applicable to taxes, insurance, maintenance, other operating expenses and contingent rentals) under all operating leases were \$1.1 billion, \$1.1 billion, and \$1.0 billion in 2004, 2003, and 2002, respectively. Aggregate minimum annual rentals at January 31, 2004, under non-cancelable leases are as follows (in millions):

Fiscal Year	Operating Leases	Capital Leases
2005	\$ 665	\$ 430
2006	651	427
2007	599	419
2008	553	411
2009	519	397
Thereafter	5,678	3,002
Total minimum rentals	\$ 8,665	5,086
Less estimated executory costs		44
Net minimum lease payments		5,042
Less imputed interest at rates ranging from 4.2% to 14.0%		1,849
Present value of minimum lease payments		\$ 3,193

Certain of the leases provide for contingent additional rentals based on percentage of sales. The additional rentals amounted to \$46 million, \$51 million and \$63 million in 2004, 2003 and 2002, respectively. Substantially all of the store leases have renewal options for additional terms from 5 to 30 years at comparable rentals.

In connection with the expansion of our distribution network within Canada, we have guaranteed specific obligations of a third-party logistics provider. In the unlikely event this provider fails to perform its financial obligations regarding certain Wal-Mart related projects, we would be obligated to pay an amount of up to \$110 million. These agreements cover periods of up to 10 years.

In connection with debt financing of \$500 million, we could be liable for an early termination payment under a related interest rate swap arrangement if certain unlikely events were to occur. At January 31, 2004, the termination payment was \$88 million. This arrangement expires in fiscal 2011.

In connection with the development of our grocery distribution network in the United States, we have agreements with third parties which would require us to purchase or assume the leases on certain unique equipment in the event the agreements are terminated. These agreements, which can be terminated by either party at will, cover up to a five-year period and obligate the Company to pay up to approximately \$148 million in the unlikely termination of some or all of these agreements.

The Company has entered into lease commitments for land and buildings for 11 future locations. These lease commitments with real estate developers provide for minimum rentals for 20 years, excluding renewal options, which if consummated based on current cost estimates, will approximate \$17 million annually over the lease terms.

There are no recourse provisions which would enable us to recover any amounts paid under the above guarantees from third parties. No liability has been recorded in our financial statements for these guarantees.

## 10 Retirement-Related Benefits

In the United States, the Company maintains a Profit Sharing and 401(k) Retirement Savings Plan under which most full-time and many part-time Associates become participants following one year of employment. The Profit Sharing component of the plan is entirely funded by the Company, with an additional contribution made by the Company to the Associates' 401(k) component of the plan. In addition to the Company contributions to the 401(k) Retirement Savings component of the plan, Associates may elect to contribute a percentage of their earnings. During fiscal 2004, participants could contribute up to 15% of their pretax earnings, but not more than statutory limits.

Associates may choose from among 14 different investment options for the 401(k) Retirement Savings component of the plan. For Associates who did not make any election, their 401(k) balance in the plan is placed in a balanced fund. Associates are immediately vested in their 401(k) funds and may change their investment options at any time. Additionally, fully vested Associates have the same 14 investment options for the Profit Sharing component of the plan. Associates are fully vested in the Profit Sharing component of the plan after seven years of service.

Annual contributions to the United States and Puerto Rico 401(k) and profit sharing plans are made at the sole discretion of the Company, and were \$662 million, \$574 million and \$479 million in fiscal 2004, 2003 and 2002, respectively. In addition, in fiscal 2002, eligible Associates could choose to receive a cash payout equal to one-half of the Company contribution that otherwise would have been made into the 401(k) plan. The Company paid \$34 million in cash to Associates in lieu of Company contributions to the 401(k) plan in fiscal 2002.

Employees in foreign countries who are not U.S. citizens are covered by various postemployment benefit arrangements. These plans are administered based upon the legislative and tax requirements in the country in which they are established. Annual contributions to foreign retirement savings and profit sharing plans are made at the discretion of the Company, and were \$89 million, \$73 million and \$55 million in fiscal 2004, 2003 and 2002, respectively.

The Company's United Kingdom subsidiary, ASDA, has in place a defined benefit pension plan. The plan was underfunded by \$303 million and \$206 million at January 31, 2004 and 2003, respectively.

## 11 Segments

The Company and its subsidiaries are principally engaged in the operation of mass merchandising stores located in all 50 states, Argentina, Canada, Germany, South Korea, Puerto Rico and the United Kingdom, through joint ventures in China, and through majority-owned subsidiaries in Brazil and Mexico. The Company identifies segments based on management responsibility within the United States and for total international units.

The Wal-Mart Stores segment includes the Company's Discount Stores, Supercenters and Neighborhood Markets in the United States as well as Wal-Mart.com. The SAM'S CLUB segment includes the warehouse membership Clubs in the United States. The International segment consists of the Company's operations in Argentina, Brazil, China, Germany, South Korea, Mexico and the United Kingdom, which are consolidated using a December 31 fiscal year-end, generally due to statutory reporting requirements. There were no significant intervening events which materially affected the financial statements. The Company's operations in Canada and Puerto Rico are consolidated using a January 31 fiscal year-end. The amounts under the caption "Other" in the following table are corporate overhead, including our real estate operations. Wal-Mart's portion of the results of our unconsolidated 37.8% minority interest in Japanese retailer Seiyu is also included under the caption "Other."

The Company measures segment profit as operating profit, which is defined as operating income, which is defined as income from continuing operations before net interest expense, income taxes and minority interest. Information on segments and the reconciliation to income from continuing operations before income taxes and minority interest, are as follows (in millions):

		SAM'S CLUB	International		Consolidated
Fiscal Year Ended January 31, 2004	Wal-Mart Stores			Other	
Revenues from external customers	\$ 174,220	\$ 34,537	\$ 47,572	\$ —	\$ 256,329
Intercompany real estate charge (income)	2,468	484	—	(2,952)	—
Depreciation and amortization	1,482	249	810	1,311	3,852
Operating income (loss)	12,916	1,126	2,370	(1,387)	15,025
Interest expense, net					(832)
Income from continuing operations before income taxes and minority interest					14,193
Total assets of continuing operations	\$ 26,230	\$ 4,645	\$ 34,018	\$40,019	\$ 104,912
Fiscal Year Ended January 31, 2003	Wal-Mart Stores	SAM'S CLUB	International	Other	Consolidated
Revenues from external customers	\$ 157,120	\$ 31,702	\$ 40,794	\$ —	\$ 229,616
Intercompany real estate charge (income)	2,228	453	—	(2,681)	—
Depreciation and amortization	1,287	216	639	1,222	3,364
Operating income (loss)	11,840	1,023	1,998	(1,566)	13,295
Interest expense, net					(927)
Income from continuing operations before income taxes and minority interest					12,368
Total assets of continuing operations	\$ 24,748	\$ 4,404	\$ 30,709	\$33,039	\$ 92,900
Fiscal Year Ended January 31, 2002	Wal-Mart Stores	SAM'S CLUB	International	Other	Consolidated
Revenues from external customers	\$ 139,131	\$ 29,395	\$ 35,485	\$ —	\$ 204,011
Intercompany real estate charge (income)	1,993	411	—	(2,404)	—
Depreciation and amortization	1,091	177	595	1,365	3,228
Operating income (loss)	10,189	1,023	1,271	(904)	11,579
Interest expense, net					(1,183)
Income from continuing operations before income taxes and minority interest					10,396
Total assets of continuing operations	\$ 21,890	\$ 3,958	\$ 26,324	\$29,377	\$ 81,549

Operating income information for fiscal years 2003 and 2002 has been reclassified to conform to current-year presentation.

Domestic long-lived assets, net, excluding goodwill were \$43.7 billion and \$39.3 billion in fiscal 2004 and 2003, respectively. Additions to domestic long-lived assets were \$6.5 billion, \$6.1 billion and \$4.7 billion in fiscal 2004, 2003 and 2002, respectively. International long-lived assets, net, excluding goodwill were \$17 billion and \$14.7 billion in fiscal 2004 and 2003, respectively. Additions to International long-lived assets were \$3.3 billion, \$2.3 billion and \$1.4 billion in fiscal 2004, 2003 and 2002, respectively. The International segment includes all international real estate. The operations of the Company's ASDA subsidiary are significant in comparison to the total operations of the International segment. ASDA sales during fiscal 2004, 2003 and 2002 were \$21.7 billion, \$18.1 billion and \$15.3 billion, respectively. At January 31, 2004 and 2003, ASDA long-lived assets, including primarily net plant, property and equipment and net goodwill, totaled \$16.3 billion and \$14.2 billion, respectively.

## 12 Quarterly Financial Data (Unaudited)

	Quarters ended			
	April 30,	July 31,	October 31,	January 31,
<i>(Amounts in millions except per share information)</i>				
<b>2004</b>				
Net sales	\$56,718	\$62,637	\$ 62,480	\$ 74,494
Cost of sales	43,918	48,298	48,292	58,239
Income from continuing operations	1,830	2,283	2,028	2,722
Income from discontinued operation	31	161	—	—
Net income	\$ 1,861	\$ 2,444	\$ 2,028	\$ 2,722
<b>Net income per common share, basic</b>				
Income from continuing operations	\$ 0.41	\$ 0.52	\$ 0.46	\$ 0.63
Income from discontinued operation	0.01	0.04	—	—
<b>Net income per common share, basic</b>	\$ 0.42	\$ 0.56	\$ 0.46	\$ 0.63
<b>Net income per common share, diluted</b>				
Income from continuing operations	\$ 0.41	\$ 0.52	\$ 0.46	\$ 0.63
Income from discontinued operation	0.01	0.04	—	—
<b>Net income per common share, diluted</b>	\$ 0.42	\$ 0.56	\$ 0.46	\$ 0.63
<b>2003</b>				
Net sales	\$51,705	\$56,271	\$ 55,241	\$ 66,400
Cost of sales	40,136	43,516	42,646	52,001
Income from continuing operations	1,596	1,990	1,780	2,452
Income from discontinued operation	35	29	17	56
Net income	\$ 1,631	\$ 2,019	\$ 1,797	\$ 2,508
<b>Net income per common share, basic</b>				
Income from continuing operations	\$ 0.36	\$ 0.45	\$ 0.40	\$ 0.56
Income from discontinued operation	0.01	—	0.01	0.01
<b>Net income per common share, basic</b>	\$ 0.37	\$ 0.45	\$ 0.41	\$ 0.57
<b>Net income per common share, diluted</b>				
Income from continuing operations	\$ 0.36	\$ 0.45	\$ 0.40	\$ 0.56
Income from discontinued operation	0.01	—	0.01	0.01
<b>Net income per common share, diluted</b>	\$ 0.37	\$ 0.45	\$ 0.41	\$ 0.57

The sum of quarterly financial data will not agree to annual amounts due to rounding. Fiscal 2003 has been restated for the adoption of FAS 123 for which the Company elected the retroactive restatement transition method and for the sale of McLane as a discontinued operation.

**Report of Independent Auditors**

The Board of Directors and Shareholders,

Wal-Mart Stores, Inc.

We have audited the accompanying consolidated balance sheets of Wal-Mart Stores, Inc. as of January 31, 2004 and 2003, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended January 31, 2004. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Wal-Mart Stores, Inc. at January 31, 2004 and 2003, and the consolidated results of its operations and its cash flows for each of the three years in the period ended January 31, 2004, in conformity with accounting principles generally accepted in the United States.

As discussed in Note 1 to the consolidated financial statements, effective February 1, 2002, the Company adopted the provisions of Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets.

/s/ Ernst & Young LLP

Tulsa, Oklahoma

March 19, 2004

## Report of Management

Management of Wal-Mart Stores, Inc. (“Wal-Mart”) is responsible for the integrity and objectivity of the financial statements and other information presented in this report. These financial statements have been prepared in conformity with accounting principles generally accepted in the United States. The preparation of financial statements requires certain estimates and judgments, which are based upon currently available information and Management’s view of current conditions and circumstances.

Management has developed and maintains a system of internal and disclosure controls, including an extensive internal audit program. These controls are designed to provide reasonable assurance that the Company’s assets are protected from improper use and that Wal-Mart’s accounting records provide a reliable basis for the preparation of financial statements. We continually review, improve and modify these systems and programs in response to changes in business conditions and operations and the recommendations made by Wal-Mart’s internal and external auditors. We believe that the system of internal and disclosure controls provides reasonable assurance that Wal-Mart’s assets are safeguarded and that the financial information disclosed is reliable.

Our Company was founded on the belief that open communications and the highest standard of ethics are necessary to be successful. Our long-standing “open door” communication policy helps Management be aware of and deal with issues in a timely and effective manner. Through the open door policy all Associates are encouraged to inform Management at the appropriate level when they are concerned about any matter pertaining to the Company.

Wal-Mart has adopted a Statement of Ethics to guide our Associates in the continued observance of high ethical standards such as honesty, integrity and compliance with the law in the conduct of the Company’s business. Familiarity and compliance with the Statement of Ethics is periodically reviewed and acknowledged by all management Associates. The Company also has in place a Related-Party Transaction Policy. This policy applies to all Officers and Directors of the Company and requires material related-party transactions to be reviewed by the Audit Committee of the Board of Directors. The Company’s Officers and Directors are required to report material related-party transactions to the Company.

We retain Ernst & Young LLP, independent auditors, to audit the Company’s financial statements. Their audits are performed in accordance with generally accepted auditing standards in the United States. We have made available to Ernst & Young LLP all financial records and related data.

The Board of Directors, through the activities of its Audit Committee consisting solely of independent directors, provides oversight of the process of reporting financial information. The Committee stays informed of the financial condition of the Company and regularly reviews its financial policies and procedures, the independence of the Company’s independent auditors, its internal accounting controls and the objectivity of its financial reporting. Both the Company’s independent auditors and the internal auditors have free access to the Audit Committee and meet with the Committee periodically, both with and without Management present.

/s/ H. Lee Scott

H. Lee Scott  
President and Chief Executive Officer

/s/ Thomas M. Shoewe

Thomas M. Schoewe  
Executive Vice President and Chief Financial Officer

## Fiscal 2004 End-of-Year Store Count

State	Discount	Supercenters	SAM'S CLUBS	Neighborhood
	Stores			Markets
Alabama	27	59	10	2
Alaska	6	0	3	0
Arizona	21	23	11	2
Arkansas	31	48	5	6
California	143	0	32	0
Colorado	16	35	14	0
Connecticut	27	3	3	0
Delaware	3	4	1	0
Florida	59	101	38	2
Georgia	37	67	21	0
Hawaii	6	0	1	0
Idaho	3	13	1	0
Illinois	79	37	28	0
Indiana	38	49	14	0
Iowa	23	30	7	0
Kansas	26	27	6	2
Kentucky	30	45	5	1
Louisiana	31	51	12	1
Maine	12	10	3	0
Maryland	34	5	13	0
Massachusetts	40	2	3	0
Michigan	49	19	23	0
Minnesota	33	13	13	0
Mississippi	18	46	5	1
Missouri	52	62	14	0
Montana	5	6	1	0
Nebraska	9	14	3	0
Nevada	10	11	5	0
New Hampshire	19	7	4	0
New Jersey	34	0	8	0
New Mexico	4	22	5	0
New York	54	24	18	0
North Carolina	43	58	18	0

State	Discount	Supercenters	SAM'S CLUBS	Neighborhood
	Stores			Markets
North Dakota	8	0	2	0
Ohio	74	35	26	0
Oklahoma	37	45	7	13
Oregon	21	6	0	0
Pennsylvania	52	51	20	0
Rhode Island	7	1	1	0
South Carolina	18	42	9	0
South Dakota	6	4	2	0
Tennessee	26	68	15	4
Texas	102	184	69	26
Utah	5	19	7	4
Vermont	4	0	0	0
Virginia	22	55	13	0
Washington	23	12	3	0
West Virginia	8	20	3	0
Wisconsin	41	31	11	0
Wyoming	2	7	2	0
<b>U.S. Totals</b>	<b>1,478</b>	<b>1,471</b>	<b>538</b>	<b>64</b>

International/Worldwide				
Argentina	0	11	0	0
Brazil	0	13	10	2*
Canada	231	0	4	0
China	0	28	4	2
Germany	0	92	0	0
South Korea	0	15	0	0
Mexico	487†	83	53	0
Puerto Rico	9	3	9	32**
United Kingdom	255‡	12	0	0
International Totals	982	257	80	36
Grand Totals	2,460	1,728	618	100

\* Brazil includes 2 Todo Dias

† Mexico includes 140 Bodegas, 52 Suburbias, 44 Superamas, 251 Vips

\*\* Puerto Rico includes 32 Amigos

‡ United Kingdom includes 253 ASDA Stores and 2 George Stores



## Corporate Information

### Registrar and Transfer Agent:

EquiServe Trust Company, N.A.  
P.O. Box 43069  
Providence, Rhode Island 02940-3069  
1-800-438-6278  
TDD for hearing-impaired inside the U.S.: 1-800-952-9245  
Internet: <http://www.equiserve.com>  
Dividend Reinvestment and Direct Stock Purchase Available

### Listings – Stock Symbol: WMT

New York Stock Exchange  
Pacific Stock Exchange

### Annual Meeting:

Our Annual Meeting of Shareholders will be held on Friday, June 4, 2004, at 8:45 a.m. in Bud Walton Arena on the University of Arkansas campus, Fayetteville, Arkansas.

### Communication with Shareholders:

Wal-Mart Stores, Inc. periodically communicates with its Shareholders and other members of the investment community about our operations. For further information regarding our policy on Shareholders and Investor Communications refer to our website [www.walmartstores.com](http://www.walmartstores.com).

### Independent Auditors:

Ernst & Young LLP  
3900 One Williams Center  
Tulsa, Oklahoma 74172

### Corporate Address:

Wal-Mart Stores, Inc.  
702 S.W. 8th Street  
Bentonville, Arkansas 72716  
Telephone: (479) 273-4000  
Retail Internet Site: <http://www.walmart.com>  
Corporate Internet Site: <http://www.walmartstores.com>

**The following reports are available without charge upon request by writing the Company c/o Investor Relations or by calling (479) 273-8446. These reports are also available via the corporate website.**

Annual Report on Form 10-K  
Quarterly Reports on Form 10-Q  
Current Press Releases  
Current Sales and Earnings Releases  
Copy of Proxy Statement  
Diversity Brochure  
Supplier Standards Report

### Trustees

3.375%, 4.15%, 4.375%, 4.55%  
5.199%, 5.45%, 5.875%, 6.5%  
6.55%, 6.75%, 6.875%, 7.25%, 7.5%,  
7.55%, 8.0%, 8.5%  
Notes, Marks <sup>SM</sup>, Wal-Mart Canada  
Venture Corp – 5.58%  
J.P. Morgan Institutional Trust Services  
2001 Bryan Street – 9th Floor  
Dallas, Texas 75201

Global Notes (GBP)  
4.75%, 5.75%  
J.P. Morgan  
Institutional Trust Services  
Trinity Tower  
9 Thomas More Street  
London E1W 1YT

Pass Through Certificates  
1992-A-1-7.49%  
1992-A-2-8.07%  
Wells Fargo Bank  
229 South Main Street – 12th Floor  
Salt Lake City, Utah 84111

Sale/Leaseback Transaction  
(Wal-Mart Retail Trust I, II, III)  
US Bank, N.A.  
Corporate Trust Services  
P.O. Box 960778  
Boston, Massachusetts 02102-0778

Pass Through Certificates  
1994-A-1-8.57%  
1994-A-2-8.85%  
J.P. Morgan  
Institutional Trust Services  
2001 Bryan Street – 9th Floor  
Dallas, Texas 75201

Sale/Leaseback Transaction  
Series B – 8.75%  
Series C – 8.875%  
J.P. Morgan  
Institutional Trust Services  
2001 Bryan Street – 9th Floor  
Dallas, Texas 75201

Pass Through Certificates  
(Wal-Mart Retail Trust IV, V)  
1994-B-1-8.45%  
1994-B-2-8.62%  
1994-B-3-8.80%  
J.P. Morgan  
Institutional Trust Services  
2001 Bryan Street – 9th Floor  
Dallas, Texas 75201

Sale/Leaseback Transaction  
WMS I Series C – 8.72%  
J.P. Morgan  
Institutional Trust Services  
2001 Bryan Street – 9th Floor  
Dallas, Texas 75201

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## Market Price of Common Stock

Fiscal year ended January 31, 2003

	High	Low
1st Quarter	\$63.75	\$55.80
2nd Quarter	\$58.55	\$44.60
3rd Quarter	\$57.33	\$45.60
4th Quarter	\$55.57	\$47.10

Fiscal year ended January 31, 2004

	High	Low
1st Quarter	\$56.58	\$46.74
2nd Quarter	\$57.32	\$52.00
3rd Quarter	\$60.08	\$55.27
4th Quarter	\$59.04	\$50.74

Fiscal year ending January 31, 2005

	High	Low
1st Quarter*	\$61.05	\$54.69

\*Through March 31, 2004

## Shareholders

As of March 31, 2004, there were 333,604 holders of record of Wal-Mart's Common Stock.

## Dividends Paid Per Share

Fiscal year ended January 31, 2003

April 18, 2002	\$0.075
July 8, 2002	\$0.075
October 7, 2002	\$0.075
January 6, 2003	\$0.075

Fiscal year ended January 31, 2004

April 7, 2003	\$0.090
July 7, 2003	\$0.090
October 14, 2003	\$0.090
January 5, 2004	\$0.090

## Dividends Payable Per Share

Fiscal year ending January 31, 2005

April 5, 2004	\$0.130
July 7, 2004	\$0.130
September 7, 2004	\$0.130
January 3, 2005	\$0.130

## Board of Directors

### James W. Breyer

Mr. Breyer is the Managing Partner of Accel Partners, a venture capital firm.

### M. Michele Burns

Ms. Burns is the Executive Vice President and Chief Financial Officer of Delta Air Lines, Inc.

### Thomas M. Coughlin

Mr. Coughlin is the Vice Chairman of the Board of Wal-Mart.

### David D. Glass

Mr. Glass is the Chairman of the Executive Committee of the Board of Wal-Mart.

### Stanley C. Gault

Mr. Gault is the retired chairman of the Board of Directors of Goodyear Tire and Rubber Company.

### Roland A. Hernandez

Mr. Hernandez is the retired Chief Executive Officer and Chairman of the Board of Directors of Telemundo Group, Inc., a Spanish-language

television station company.

**Dawn G. Lepore**

Ms. Lepore is a Vice Chairman for The Charles Schwab Corporation, a financial holding company.

**John D. Opie**

Mr. Opie is the retired Vice Chairman of the Board of Directors and Executive Officer of the General Electric Co., a diversified technology, services and products company.

**J. Paul Reason**

Mr. Reason is the President and Chief Operating Officer of Metro Machine Corporation, an employee-owned ship repair company. He is a retired four-star Admiral of the U. S. Navy. He served as Commander-in-Chief of the U.S. Atlantic Fleet.

**H. Lee Scott, Jr.**

Mr. Scott is the President and Chief Executive Officer of Wal-Mart.

**Jack C. Shewmaker**

Mr. Shewmaker is the President of J-COM, Inc., a consulting company, and is also a rancher.

**Jose H. Villarreal**

Mr. Villarreal is a partner in the San Antonio, Texas, office of the law firm of Akin, Gump, Strauss, Hauer & Feld LLP.

**John T. Walton**

Mr. Walton is the Chairman of True North Partners, LLC, which holds investments in technology companies.

**S. Robson Walton**

Mr. Walton is the Chairman of the Board of Wal-Mart.

**EXHIBIT 21**

**SUBSIDIARIES OF WAL-MART STORES, INC.**

<u>SUBSIDIARY</u>	<u>ORGANIZED OR INCORPORATED</u>	<u>PERCENT OF EQUITY SECURITIES OWNED</u>	<u>NAME UNDER WHICH DOING BUSINESS OTHER THAN SUBSIDIARY'S</u>
Wal-Mart Stores East, LP	Delaware, U. S.	100%	Wal-Mart
Wal-Mart Property Company	Delaware, U. S.	100%	NA
Wal-Mart Real Estate Business Trust	Delaware, U. S.	100%	NA
ASDA Group Limited	England	100%	ASDA/Wal-Mart

**EXHIBIT 23**

**CONSENT OF INDEPENDENT AUDITORS**

We consent to the incorporation by reference in this Annual Report (Form 10-K) of Wal-Mart Stores, Inc. of our report dated March 19, 2004 included in the 2004 Annual Report to Shareholders of Wal-Mart Stores, Inc.

We also consent to the incorporation by reference of our report dated March 19, 2004, with respect to the consolidated financial statements of Wal-Mart Stores, Inc. incorporated by reference in this Annual Report (Form 10-K) for the year ended January 31, 2004, in the following registration statements and related prospectuses:

Stock Option Plan of 1984 of Wal-Mart Stores, Inc., as amended	Form S-8	File No. 2-94358 and 1-6991
Stock Option Plan of 1994 of Wal-Mart Stores, Inc., as amended	Form S-8	File No. 33-55325
Debt Securities and Pass-Through Certificates of Wal-Mart Stores, Inc.	Form S-3	File No. 33-55725
Director Compensation Plan of Wal-Mart Stores, Inc.	Form S-8	File No. 333-24259
Debt Securities of Wal-Mart Stores, Inc.	Form S-3	File No. 33-53125
Dividend Reinvestment and Stock Purchase Plan of Wal-Mart Stores, Inc.	Form S-3	File No. 333-2089
401(k) Retirement Savings Plan of Wal-Mart Stores, Inc.	Form S-8	File No. 333-29847
401(k) Retirement Savings		

Plan of Wal-Mart Puerto Rico, Inc.	Form S-8	File No. 33-44659
Registration Statement Covering 14,710,000 Shares of Common Stock of Wal-Mart Stores, Inc.	Form S-3	File No. 333-56993
Associate Stock Purchase Plan of Wal-Mart Stores, Inc.	Form S-8	File No. 333-62965
Stock Incentive Plan of Wal-Mart Stores, Inc.	Form S-8	File No. 333-60329
The ASDA Colleague Share Ownership Plan 1	Form S-8	File No. 333-84027
The ASDA Group Long Term Incentive Plan 1		
The ASDA Group PLC Sharesave Scheme 1		
The ASDA 1984 Executive Share Option Scheme 1		
The ASDA 1994 Executive Share Option Scheme 1		
The ASDA Colleague Share Ownership Plan 1999	Form S-8	File No. 333-88501
Debt Securities of Wal-Mart Stores, Inc.	Form S-3	File No. 333-64740
Debt Securities of Wal-Mart Cayman Canadian Finance Co.	Form S-3	File No. 333-64740-01
Debt Securities of Wal-Mart Cayman Euro Finance Co.	Form S-3	File No. 333-64740-02

Debt Securities of Wal-Mart Cayman Sterling Finance Co.	Form S-3	File No. 333-64740-03
Debt Securities of Wal-Mart Stores, Inc.	Form S-3	File No. 333-101847
Registration Statement covering 16,000,000 shares of common stock of Wal-Mart Stores, Inc.	Form S-3	File No. 333-101859
Wal-Mart Profit Sharing and 401(k) Plan	Form S-8	333-109421
Associate Stock Purchase Plan of 1996	Form S-8	333-109417
Wal-Mart Puerto Rico Profit Sharing and 401(k) Plan	Form S-8	333-109414
ASDA Colleague Share Ownership Plan 1999 and ASDA Sharesave Plan 2000	Form S-8	333-107439
Debt Securities of Wal-Mart Stores, Inc.	Form S-3	333-101847
Ernst & Young LLP (signature)		

Tulsa, Oklahoma  
April 8, 2004

### EXHIBIT 31.1

I, H. Lee Scott, Jr., certify that:

- I have reviewed this Annual Report on Form 10-K of Wal-Mart Stores, Inc. (the “registrant”);
- Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- The registrant’s other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluations; and
  - Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s fourth quarter that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting.
- The registrant’s other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the Audit Committee of the registrant’s Board of Directors:
  - All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
  - Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control.

Date: April 9, 2004

/s/ H. Lee Scott, Jr.

H. Lee Scott, Jr.  
President and  
Chief Executive Officer

### EXHIBIT 31.2

I, Thomas M. Schoewe, certify that:

- I have reviewed this Annual Report on Form 10-K of Wal-Mart Stores, Inc. (the “registrant”);
- Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material

respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
  - a.) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b.) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluations;
  - c.) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the Audit Committee of the registrant's Board of Directors:
  - a.) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b.) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control.

Date: April 9, 2004

/s/ Thomas M. Schoewe

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Thomas M. Schoewe  
Executive Vice President  
and Chief Financial Officer

**EXHIBIT 32.1**

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350 (AS ADOPTED  
PURSUANT TO SECTION 906 OF THE  
SARBANES-OXLEY ACT OF 2002)**

In connection with the Annual Report of Wal-Mart Stores, Inc. (the "Company") on Form 10-K for the period ending January 31, 2004, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, H. Lee Scott, Jr., President and Chief Executive Officer of the Company, certify to my knowledge and in my capacity as an officer of the Company, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of the dates and for the periods expressed in the Report.

IN WITNESS WHEREOF, the undersigned has executed this Certificate, effective as of April 9, 2004.

/s/ H. Lee Scott, Jr.

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H. Lee Scott, Jr.  
President and  
Chief Executive Officer

A signed original of this written statement required by Section 906 has been provided to Wal-Mart Stores, Inc. and will be retained by Wal-Mart Stores, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

**EXHIBIT 32.2**

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350 (AS ADOPTED  
PURSUANT TO SECTION 906 OF THE  
SARBANES-OXLEY ACT OF 2002)**

In connection with the Annual Report of Wal-Mart Stores, Inc. (the "Company") on Form 10-K for the period ending January 31, 2004, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Thomas M. Schoewe, Executive Vice President and Chief Financial Officer of the Company, certify to my knowledge and in my capacity as an officer of the Company, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the

Company as of the dates and for the periods expressed in the Report.

IN WITNESS WHEREOF, the undersigned has executed this Certificate, effective as of April 9, 2004.

/s/ Thomas M. Schoewe

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Thomas M. Schoewe  
Executive Vice President and  
Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to Wal-Mart Stores, Inc. and will be retained by Wal-Mart Stores, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

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**End of Filing**

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